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ABSTRACT

This report studies the proper allocation of responsibility for financing the high cost of intergovernmental programs among the three major levels of government. The local property tax, which is the primary underwriter of the local school system, of local general government, and of half the nation's $10 billion public welfare bill, is outmoded. State aid for local fiscal needs has not kept pace with the growth in local expenditures. It is recommended that the Federal Government assume full financial responsibility for the public assistance function. States, in turn, should become the prime financial source for elementary and secondary education costs. In health and hospital services, States should base distribution of funds on the ability of localities to provide standardized services. Funds for highways, mass transit, and urban development should be distributed to achieve a more equitable balance between highway and mass transit expenditures. These and other recommendations will provide a more equitable tax base to provide the quality public services for all States. [Tables may be of poor quality when reproduced due to fine print.] (LN)

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A COMMISSION REPORT

STATE AID TO LOCAL GOVERNMENT

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EA 002 729

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
WASHINGTON, D.C. 20575
APRIL 1969
A—34

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PREFACE

Section 2 of the Act establishing the Advisory Commission on Intergovernmental Relations (PL 86-380) states:

> "Because the complexity of modern life intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government, and because population growth and scientific developments portend an increasingly complex society in future years, it is essential that an appropriate agency be established to give continuing attention to intergovernmental problems.
>
> Among the Commission's responsibilities, specified in Section 2, is to–
>
> "(6) recommend, within the framework of the Constitution, the most desirable allocation of governmental functions, responsibilities and revenues among the several levels of government."

In this report the Commission addresses itself to the allocation of financial responsibility among the Federal, State and local governments for the conduct of the major domestic governmental functions–education, public welfare and health, highways, and urban development. It recommends a number of significant shifts, including assumption by the National Government of responsibility for financing public assistance and by the State governments of substantially all financing of local schools.

This report was considered by the Commission at two successive meetings on January 17 and April 13, 1969 and was approved by the Commission at the April 13 meeting.

Farris Bryant
Chairman

ACKNOWLEDGMENTS

Responsibility for the staff work on this report was shared by L. Richard Gabler, Jacob M. Jaffe, and Will S. Myers, Jr., with the assistance of Frank Tippett.

The Commission and its staff benefited from an informal review of a draft of the report by a number of individuals, including John E. Bebout, George A. Bell, Gerard Brannon, Bruce Davie, John Fava, Jean M. Flanigan, James Gibbs, Thomas Graves, William D. Hart, Janet Hoffman, Thomas L. Johns, I.M. Labovitz, Michael Lash, William Leonard, William McCallum, Eugene McLoone, James W. Martin, Anita Wells Merriam, Harold Pellish, Kenneth E. Quindry, Robert W. Rafuse, Seymour Sacks, Don Soule, August Steinhilber, Frederick D. Stocker, and Ralph Taber.

Special thanks are due the staff of the Governments Division, Bureau of the Census, who supplied advance copy of data from the 1967 Census of Governments. The Commission also acknowledges with appreciation the assistance it received from the Mayors of a number of large cities, who furnished property tax information for this study.

The Commission records its appreciation for the contribution of these individuals to this report. Responsibility for content and accuracy rests, of course, with the Commission and its staff.

John Shannon
Assistant Director
Taxation and Finance

Wm. G. Colman
Executive Director

THE COMMISSION AND ITS WORKING PROCEDURES

This statement of the procedures followed by the Advisory Commission on Intergovernmental Relations is intended to assist the reader's consideration of this report. The Commission, made up of busy public officials and private persons occupying positions of major responsibility, must deal with diverse and specialized subjects. It is important, therefore, in evaluating reports and recommendations of the Commission to know the processes of consultation, criticism, and review to which particular reports are subjected.

The duty of the Advisory Commission, under Public Law 86-380, is to give continuing attention to intergovernmental problems in Federal-State, Federal-local, and State-local, as well as interstate and interlocal relations. The Commission's approach to this broad area of responsibility is to select specific intergovernmental problems for analysis and policy recommendation. In some cases, matters proposed for study are introduced by individual members of the Commission; in other cases, public officials, professional organizations, or scholars propose projects. In still others, possible subjects are suggested by the staff. Frequently, two or more subjects compete for a single "slot" on the Commission's work program. In such instances selection is by majority vote.

Once a subject is placed on the work program, staff is assigned to it. In limited instances the study is contracted for with an expert in the field or a research organization. The staff's job is to assemble and analyze the facts, identify the differing points of view involved, and develop a range of possible, frequently alternative, policy considerations and recommendations which the Commission might wish to consider. This is all developed and set forth in a preliminary draft report containing (a) historical and factual background, (b) analysis of the issues, and (c) alternative solutions.

The preliminary draft is reviewed within the staff of the Commission and after revision is placed before an informal group of "critics" for searching review and criticism. In assembling these reviewers, care is taken to provide (a) expert knowledge and (b) a diversity of substantive and philosophical viewpoints. Additionally, representatives of the National League of Cities, Council of State Governments, National Association of Counties, U.S. Conference of Mayors, U.S. Bureau of the Budget and any Federal agencies directly concerned with the subject matter participate, along with the other "critics" in reviewing the draft. It should be emphasized that participation by an individual or organization in the review process does not imply in any way endorsement of the draft report. Criticisms and suggestions are presented; some may be adopted, others rejected by the Commission staff.

The draft report is then revised by the staff in light of criticisms and comments received and transmitted to the members of the Commission at least three weeks in advance of the meeting at which it is to be considered.

RECOMMENDATIONS

Recommendation No. 1–State Assumption of Substantially All Responsibility for Financing Education

In order to create a financial environment more conducive to attainment of equality of educational opportunity and to remove the massive and growing pressure of the school tax on owners of local property, the Commission recommends that each State adopt as a basic objective of its long-range State-local fiscal policy the assumption by the State of substantially all fiscal responsibility for financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policymaking authority.*

Recommendation No. 2–National Government Assumption of Full Financial Responsibility for Public Assistance (including General Assistance and Medicaid)

The Commission concludes that maintaining a properly functioning and responsive public assistance program as presently operating is wholly beyond the severely strained financial capacity of State and local government to support. The Commission therefore recommends that the Federal Government assume full financial responsibility for the provision of public assistance. The Commission further recommends that the States and local governments continue to administer public assistance programs.

The Commission wishes it understood that these recommendations are designed to relieve inequities of resource capacity among the levels of government and apply until such time as Congress and others shall determine a more efficient and appropriate method of welfare administration applicable to the complex social problems of our time.**

Recommendation No. 3–State Compensation for "Municipal-Overburden" in the Absence of Substantial State Support for Schools

In States that have not assumed substantially full responsibility for financing education, the Commission recommends that they construct and fund a school equalization program so as to extend additional financial assistance to those school districts handicapped in raising sufficient property tax revenue due to the extraordinary revenue demands made on the local tax base by city and county jurisdictions.

Recommendation No. 4–Greater State Use of Equalization in State Aid for Public Health and Hospital Programs

To avoid disproportionate tax efforts by poorer local jurisdictions, the Commission recommends that greater reliance be placed upon provisions to equalize among local jurisdictions in terms of fiscal capacity, need and tax effort to govern the distribution of State aid for public health and hospital programs.

Recommendation No. 5–Revamping the Federal Highway Aid Program

The Commission recommends that the Federal-Aid Highway Act be revised to replace the existing primary, secondary and urban extensions program with a new system aiding development of State highways, urban major street and highway networks, and rural secondary highway systems, together with provision for coordinating street and highway development with mass transportation facilities in urban areas.

Recommendation No. 6–State Financial Participation in Urban Mass Transportation

The Commission recommends that urban States develop a mass transportation plan and that, in addition to providing technical and financial assistance to metropolitan areas with regard to the planning of mass transportation facilities and services, the States furnish financial assistance toward the improvement, acquisition and operation of such facilities.

Recommendation No. 7–Allocating State Resources for Highways–The Need for a Better Urban-Rural Mix

The Commission recommends that States so structure their formulas for allocating the proceeds of highway-user taxes among units of local government as to insure a proper balance between urban and rural highway requirements. In order to recognize more adequately urban highway needs and financial ability, the States

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* Mr. Daniel, Congressman Fountain, Commissioner McDonald and Congressman Ullman dissented. Senator Mundt abstained.

** Congressmen Fountain and Ullman, Senator Knowles and Commissioner McDonald dissented. Senator Mundt, Secretary Finch, Secretary Romney and Budget Director Mayo abstained.

should allocate their resources to reflect such factors as service level needs, population, accident rates, commuter patterns and fiscal ability.

Recommendation No. 8—Increased Flexibility in the Use of State Highway-User Funds—The Anti-Diversion Issue

The Commission recommends that State constitutional and statutory provisions as to the use of State highway-user revenue be amended to allow localities, particularly in the larger urban areas, flexibility to apply such funds to broad transportation uses in order that they may achieve a balance between highways and other modes of transportation.

Recommendation No. 9—Organizational Requisites for an Effective State-Local Fiscal System

In order to create a policy environment conducive to the development of an effective State-local fiscal partnership, the Commission recommends that each State undertake to: (1) Codify all State aid plans; (2) review and evaluate periodically all State aid programs in terms of their capacity to meet fiscal, administrative, and program objectives; (3) develop in conjunction with the planning and budget officials an information system with respect to local fiscal needs and resources; and (4) evaluate all Federal aid programs in terms of their compatibility to State aid objectives and their fiscal and administrative impact on State and local programs.

Recommendation No. 10—Criteria for Assessing Local Government Viability

In order to avoid bolstering ineffective local units of government with State aid and to move toward a more orderly system of local government structure, the Commission recommends that States enact legislation setting forth specific criteria for assessing the political and economic viability of their local governments—special districts and school districts as well as units of general government—such criteria including but not being limited to (a) measures of fiscal capacity to raise revenues adequately and equitably; (b) measures of economic mixture such as minimum or maximum proportions of residential, industrial or other tax base components; (c) measures of minimum population and geographic size sufficient to provide an adequate level of service at reasonable cost; and (d) other appropriate measures designed to reconcile competing needs for political accountability and community cohesiveness on the one hand with those for variety and reasonable balance in economic and social composition on the other.

Recommendation No. 11—State Standards for Categorical Grant-in-Aid Programs

The Commission recommends that in enacting or modifying functional grant-in-aid legislation, States include not only fiscal standards such as those establishing accounting, auditing and financial reporting procedures; but also, to the maximum extent practicable, performance standards such as minimum service levels, client eligibility, and where appropriate, guidelines for citizen participation such as the holding of public hearings.

Recommendation No. 12—Conformance of State Aid Programs to Comprehensive and Functional Planning Objectives

In order to maximize the effectiveness of State grant-in-aid programs and to assure that such programs will promote statewide economic, social and urban development objectives, the Commission recommends the adoption of and inclusion in such programs of appropriate requirements for conformance of aided facilities and activities to local, regional, and statewide plans.

Generally, State grant-in-aid legislation should (a) use a common definition of comprehensive plans, incorporating the necessary human resource, economic and physical development components; (b) require that there be local functional plans to which major State aided projects and programs can be related; (c) provide for the proper relationship of functional and comprehensive plans and planning for various geographic areas and specify a review procedure; and (d) provide that required plans use a common data base.

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Chapter I

State Aid—Theory and Practice

> Financing local government in the years ahead poses one of the more pressing intergovernmental problems. Local governments' needs are increasing rapidly and will continue to out pace their resources. It will require intergovernmental action to correct this imbalance between local needs and local resources.

After sounding this prophetic note in its 1961 report—*Local Nonproperty Taxes and the Coordinating Role of the State*—the Advisory Commission then went on to single out this fiscal imbalance between rapidly rising local revenue requirements and limited taxing resources as the "central problem in State-local relations."

The classical response to this problem, that of placing ever increasing pressure on the local property tax, is becoming increasingly suspect. When viewed in sales tax terms, residential property taxes represent the equivalent of a 25 percent levy on housing expenditure on a nationwide basis—considerably heavier in many communities located in the Northeast, Midwest, and Pacific Coast areas. Moreover, serious defects in the local property tax—unequal assessments, highly regressive impact, and land use distortions—take on an increasingly harsh character as local tax loads increase.

The local tax situation in the South stands out as the major exception to this general picture of growing property tax tensions. When viewed in a national perspective, there does seem to be considerable room for more intensive use of the property tax by many Southern communities.

While the Advisory Commission has consistently urged States to pursue policies that will both promote greater property tax assessment uniformity and shield low income householders and renters from extraordinary tax burdens, even the most equitably administered property tax has its revenue limitations. In the face of rapidly rising expenditure demands of an urbanized society, the local property tax can no longer serve as the prime fiscal underwriter for both education and general local government.

The urgency for a hard look at the present State-local system for financing "local" functions is quickened by the fact that one State-local function—public education—is gradually pushing the more local or municipal-type needs to the fiscal wall. To put the issue more directly, with each passing year public education stakes out a larger claim in the local property tax field. With steadily rising education costs at the local level and only moderate increases in State aid relative to these local expenditures, the claims of education now account for about half of the local property tax, up from one-third prior to World War II.

The need for this appraisal of State aid systems is also made more urgent by the growing political balkanization of the metropolitan economic community. By leaving in its wake a metropolitan landscape pocked with "have" and "have not" communities, the great Post World War II exodus to the suburbs has also placed severe limitations on how far local nonproperty taxes can be pushed as a desirable solution to the local fiscal crisis. In fact, where the need to ease fiscal tensions is most apparent—in our politically fragmented metropolitan areas—this approach is the most suspect. While the widespread use of local nonproperty taxes is in accord with natural predisposition for keeping both tax and expenditure powers in the hands of locally elected officials, it can severely aggravate interlocal fiscal disparities and stimulate interlocal tax competition. For these reasons the Advisory Commission has urged the States to limit local nonproperty tax powers to as large a local jurisdiction as possible, ideally coinciding with local economic and trading areas.

SCOPE OF STUDY

Coming to grips with the growing fiscal crisis at the local level, however, must be viewed as more than providing property tax relief and building more equalization power into State grants to local governments. It goes to the very roots of our federal system—the proper allocation of responsibility among the three major levels of government for financing the high cost "intergovernmental" programs.

This report presents recommendations, therefore, that encompass two broad areas of public policy. The more conventional type deals with the classic functions of State aid—equalization, stimulation, and support—while the more controversial recommendations call on the National Government to assume complete financial responsibility for public welfare and medicaid and the State governments to assume substantially all of the task of financing local schools. Thus, this study also includes a "Federal" dimension.

The need to re-examine the more conventional aspects of State aid is underscored by a key finding—with the exception of the education function, States honor the equalization principle more in the breach than in observance. Thus, this study calls on the States to build greater equalization power into their aid formulas for health, hospitals and highways in order to even out the "peaks and valleys" among local governmental service levels and tax rates.

In contrast to the recommendations which take the existing "system" of State aid as given and posit alternatives only within the present confines of State practices, reallocation of financial responsibilities involves the question of which governmental level *should* have financial—though not necessarily administrative—responsibility for the provision of a public service. This aspect of the study appears as a logical corollary to the earlier considerations. Indeed, optimization of public service performance and public costs—an efficiency criterion—requires such an investigation.

PREVIOUS ACIR RECOMMENDATIONS IN SPECIFIC PROGRAM AREAS

This report attempts to set forth the most appropriate means of financing local government programs and the fiscal role of the State therein. Thus, while it discusses in some detail the major program areas—education, public welfare, health and hospitals, highways and urban development functions—the report is oriented primarily to the State financial aid aspects of these programs.

Without question, State policymakers must necessarily be concerned with a variety of functional and general legislative and administrative policy issues when they provide financial assistance to their local governments. At the very least they have to set standards against which they can measure the effectiveness of the programs they are supporting. Although this report deals with the general role of the State in establishing such guidelines it does not treat them in detail, function by function. This has been done to a considerable extent by the Commission in previous reports and to avoid repetition a summary of the earlier recommendations is set forth below. (Earlier recommendations regarding State aid are not listed but are referenced at appropriate places in this report.)

Education

1. States should enact legislation authorizing and encouraging areawide coordination and administration—through county governments or other appropriate means—of vocational education and retraining programs within metropolitan areas. (*Metropolitan Social and Economic Disparities*, Report A-25, January 1965).

2. States where school financing has not already been placed on a countywide or regional basis should mandate the establishment of county or regional school property taxing districts. (*Fiscal Balance in the American Federal System*, Report A-31, October 1967, Vol. 2 "Metropolitan Fiscal Disparities.")

Mass Transit

Legislative and administrative action should be taken by the States, particularly the larger industrial States, in initiating programs of financial and technical assistance to their metropolitan areas with respect to mass transportation facilities and services. (*Intergovernmental Responsibilities for Mass Transportation Facilities in Metropolitan Areas*, Report A-4, April 1961.)

Water Supply and Sewage Disposal

States should enact legislation to:

1. Provide incentives for areawide or regional development of local water and sewer utilities.
2. Provide State technical assistance to local waste treatment facility planning and construction.
3. Liberalize debt limits and referenda requirements for water and sewer utility financing.
4. Permit joint action by units of local government in meeting area water and sewer needs. (*Intergovernmental Responsibilities for Water Supply and Sewage Disposal in Metropolitan Areas*, Report A-13, October 1962.)

Housing and Urban Development

1. States should share in local governments' costs of providing relocation payments and services in programs for which localities receive State or Federal grants to which the State contributes part of the local share. (*Relocation: Unequal Treatment of People and Businesses Displaced by Governments*, Report A-26, January 1965.)

2. States and regional organizations should assist local governments in planning for relocation through such means as technical assistance in preparation of workable programs and community renewal programs; where States make urban renewal capital grants, advances therefrom should be provided for relocation planning. (*Relocation: Unequal Treatment of People and Businesses Displaced by Governments*, Report A-26, January 1965.)

3. States should authorize and support training programs for building inspectors and provide or arrange for regular internship training programs and States and local governments should utilize grants available under Title VIII of the Housing Act of 1964 to develop such training programs. (*Building Codes: A Program for Intergovernmental Reform*, Report A-28, January 1966.)

Other

1. Each State should undertake a comprehensive study of all governmental entities authorized by law to ascertain the numbers, types, functions, and financing of entities within the State that might be defined as special districts, subordinate agencies, and taxing areas in order to determine their total impact on government structure and organization within the State and for the purpose of developing appropriate selected legislation. (*The Problem of Special Districts in American Government*, Report A-22, May 1964.)

2. Fragmentation of the local tax base should be prevented by authorizing a State agency, subject to public hearing and court review, to consolidate or dissolve local governmental units within metropolitan areas, to stop the use of interlocal contracts that contribute to fragmentation, and to reduce State aid to local governments not meeting statutory standards of economic, geographic, and political viability. (*Fiscal Balance in the American Federal System*, Report A-31, October 1967, Vol. 2, "Metropolitan Fiscal Disparities.")

3. States should develop, at the State level, a policy incorporating social, economic, and other considerations to guide specific decisions at the State level which affect the patterns of urban growth; multicounty planning agencies should review applications for Federal or State physical development project grants; and the State legislature should provide standing committee structure to assure review of State policy dealing with urban growth. (*Urban and Rural America: Policies for Future Growth*, Report A-32, April 1968.)

TYPES OF STATE AID

The State government provides public services in two ways—either directly through agencies or instrumentalities of the State or by means of intergovernmental transfers of funds to localities. In both cases, State actions benefit local government. By directly providing a service, the State obviates the need for local financing; by making grants-in-aid available, the State supplements local resources for a particular public program. For the purpose of this report then, consideration of State aid will encompass both the reallocation of functional responsibilities among governmental levels as well as changes in the practices currently pursued by the State government in channeling intergovernmental transfers to localities. Thus, consideration of State aid will deal with increased financial participation by the State for public services currently provided by the State-local fiscal partnership.

The State sector can and does assist local governments in non-financial ways. States provide a variety of technical aids such as advice and assistance in investing idle funds and the marketing of local debt issues. A number of States now provide planning and economic assistance, particularly with regard to regional matters, as witnessed by the recent establishment of State offices of community or local affairs. Finally, States can provide help to localities by easing or abolishing tax and debt restrictions—many of which are carry-overs from a bygone past and inappropriate for the current day. By granting localities additional fiscal authority—such as expanded property taxing and borrowing powers as well as authority to tap nonproperty tax sources—States can permit localities to exploit their fiscal resources more fully. Except as the granting of such authority offers an alternative approach to additional State aid or the realignment of functional responsibilities, however, neither this kind of action nor the provision of technical and planning assistance is dealt with in this Report.

CURRENT FINANCIAL MAGNITUDES AND TRENDS

State intergovernmental expenditures are of two basic types: (a) grants-in-aid and (b) shared taxes. The former include not only those amounts authorized and appropriated by the State legislature but funds received by the States from the Federal government which are then channeled to the local level. Shared taxes are somewhat different. In this case, the State acts essentially as a tax collector, so as to avoid duplication of administration and compliance, and returns to the localities all or a portion of the yields from a particular tax—either by an allocation formula or on the basis of origin of collection.

Of the $60 billion spent by local governments in 1967, $19 billion came from State sources, including approximately $4 billion in Federal funds that the States transmitted to their local jurisdictions. It should be noted that these State payments represented a 75 percent increase over 1962, a continuation of a trend that has extended throughout the post World War II period and, indeed, throughout the 20th Century. Compared to its current level, State intergovernmental expenditure was but $3.3 billion in 1948 and a miniscule $52 million in 1902, the first year for which such data are provided (table 1).

TABLE 1–STATE INTERGOVERNMENTAL EXPENDITURE, SELECTED YEARS, 1902-1967

Item	1967	1962	1948	1934	1927	1902
State intergovernmental expenditure (in millions of dollars)	19,056	10,906	3,283	1,318	596	52
As % of local general revenue	32.4	28.4	28.9	22.7	10.1	6.1

Source: U.S. Bureau of the Census, 1967 Census of Governments, Vol. 6, *State Payments to Local Governments 1967*, table 1.

While this expansion in State intergovernmental expenditure has led to some financial centralization during the post World War II period, the massive increase in local taxes, particularly the property tax, has contained this movement. As a percent of total local general revenue, State aid has grown from 28.9 percent in 1948 to 32.4 percent in 1967; thus, at present, about one of every three local revenue dollars comes from the State. By way of contrast, State aid at the turn of the century represented but 6.1 percent of local revenue–a testimony to the limited involvement of State governments in financing State-local activities. The period of greatest shift in the State-local financial mix was between 1927 and 1934 when State aid as a percentage of local revenue more than doubled–from 10.1 percent to 22.7 percent–attributable mainly to the expansion in public welfare programs during the Great Depression.

Functional Distribution of State Aid

While there have been many shifts in the relative importance of the local functions aided by the States, the primacy of the education function as a recipient of State aid has been continuous throughout the 20th Century (figure 1). As of 1967, 62.2 percent of all State financial assistance went for elementary and secondary education. Public welfare stands a distant second–a position it has retained since 1938. Currently accounting for 15.2 percent of State intergovernmental expenditure, this function initially secured significant State aid payments during the 1930's.

Taken together then, more than three-fourths of State aid currently goes to public education and welfare–with public education alone accounting for over three-fifths of the total. The other functions receiving sizable State financial assistance are public highways, 9.8 percent, and general local government support, 8.3 percent. Since 1948, however, there has been a general decline in the relative importance of these latter classifications.

Distribution of State Aid by Type of Receiving Government

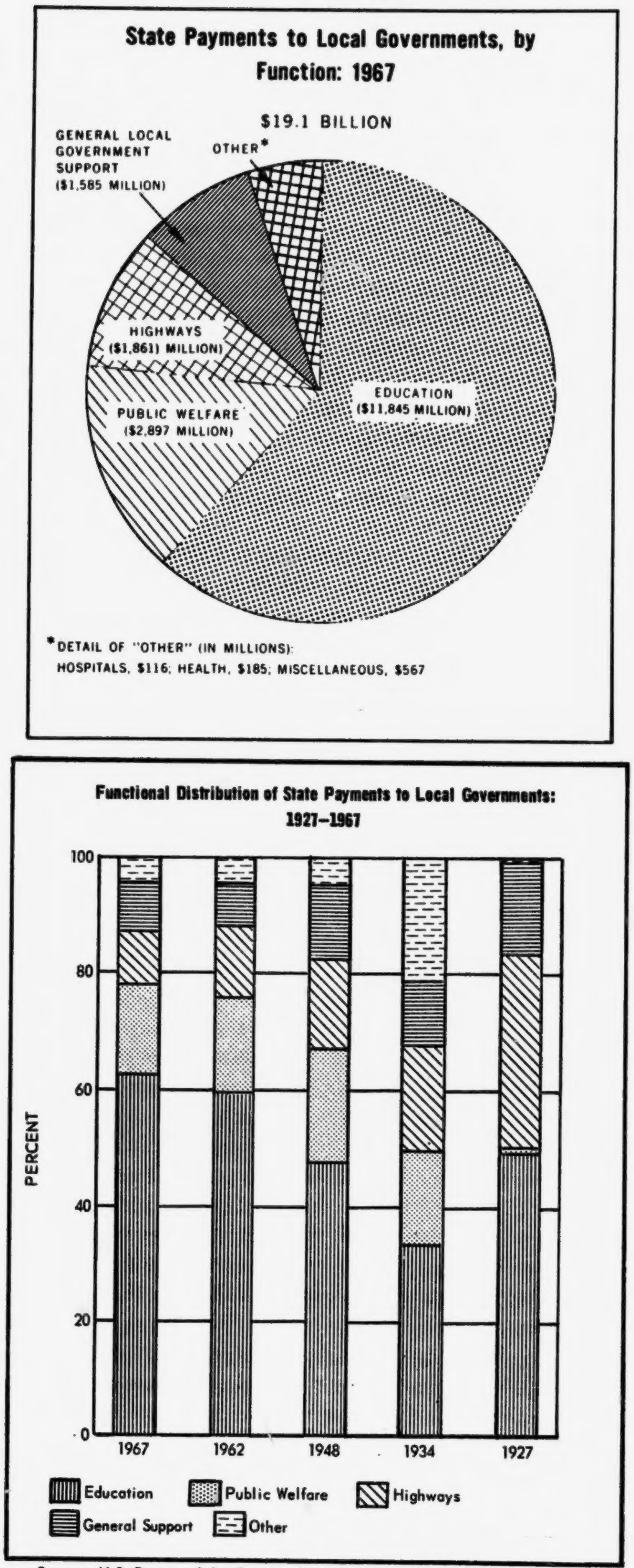
As might be expected, school districts stand out as the type of jurisdiction that receives the most generous share of State aid. In 1967, about half of all State aid went to that class of local governments, a little less than a fourth went to counties, somewhat more than a fifth to municipalities, and about 4 percent to townships and special districts (figure 2 and table A-1*).

A cross-classification of State aid for functions and by type of receiving government reveals that in 1967 counties received the bulk of welfare, highway, health and hospital aid, while school districts, of course, received almost all of the education aid. Municipalities received more than half of the aid for general local government support, reflecting to a significant degree the large amount of per capita aid in New York, which is weighted in favor of cities, and the Wisconsin shared revenue system, which tends to favor municipalities because it returns income tax revenue to its origin.

In the national aggregates, cities receive substantial shares of State aid for public welfare, highways, and

FIGURE 1

EDUCATION HOLDS THE COMMANDING POSITION ON THE STATE AID FRONT



State Payments to Local Governments, by Function: 1967

*DETAIL OF "OTHER" (IN MILLIONS): HOSPITALS, $116; HEALTH, $185; MISCELLANEOUS, $567

Functional Distribution of State Payments to Local Governments: 1927–1967

Source: U.S. Bureau of the Census, *State Payments to Local Governments, 1967*, (1967 Census of Governments, Vol. 6), Table 1.

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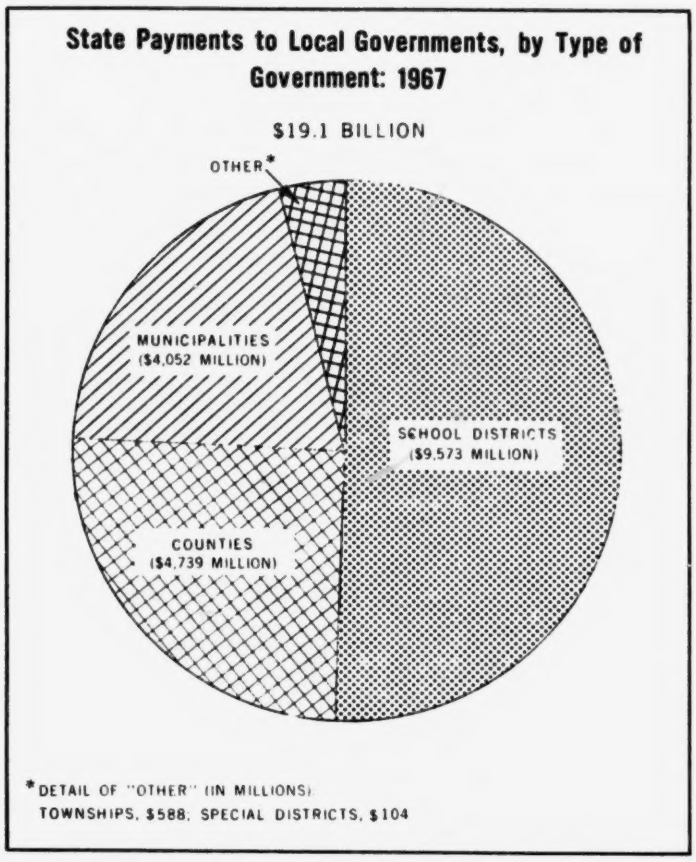
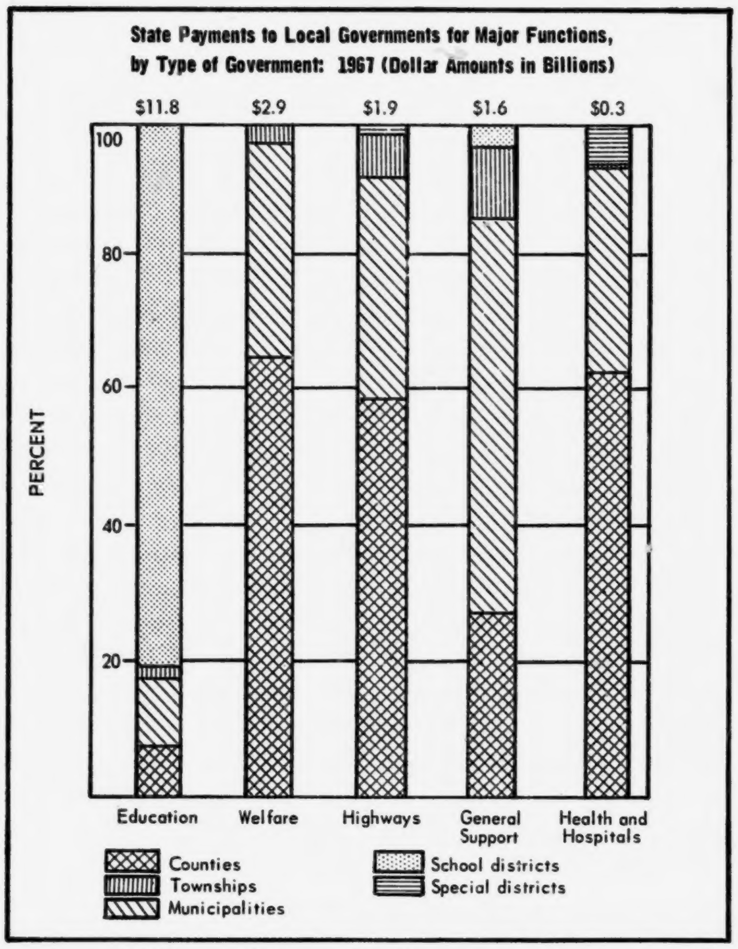
*Appendix Tables appear at the end of each chapter.

FIGURE 2

SCHOOL DISTRICTS RECEIVE MORE AID THAN CITIES AND COUNTIES COMBINED





Source: U.S. Bureau of the Census, *State Payments to Local Governments, 1967,* (1967 Census of Governments, Vol. 6), Table 6.

health and hospitals, but this can be attributed almost entirely to a few big cities–New York, San Francisco, Denver, and Baltimore which have county as well as city functions.

Interstate Variations in Intergovernmental Expenditures, 1967

States differ considerably in their use of intergovernmental transfers for the support of various public services. Indeed, this is the case not only for total State aid but also for the individual functional categories. Compared to median State intergovernmental expenditures for all functions of $77 per capita during 1967, for example, such transfers ranged from a high of $178 in New York, more than twice the median, to a low of $21 in New Hampshire, less than one-third of the median value (figure 3 and table A-2).

These variations in State intergovernmental transfers encompass two significant fiscal distinctions. In part they reflect the differing State histories and traditions regarding the allocation of State and local financial responsibilities. Equally important, however, is that States also differ in the choice between providing a service directly or through the use of intergovernmental transfers to localities. Thus the extraordinarily low standing of Hawaii, providing $10.00 per capita via intergovernmental expenditures for public education (compared to $55 for that function in the median State), and Missouri, where transfers for public welfare are but $0.15 (compared to the median value of $4.24), reflect the far greater reliance that Hawaii and Missouri place upon providing these particular functions directly rather than by means of transfers to local governments.

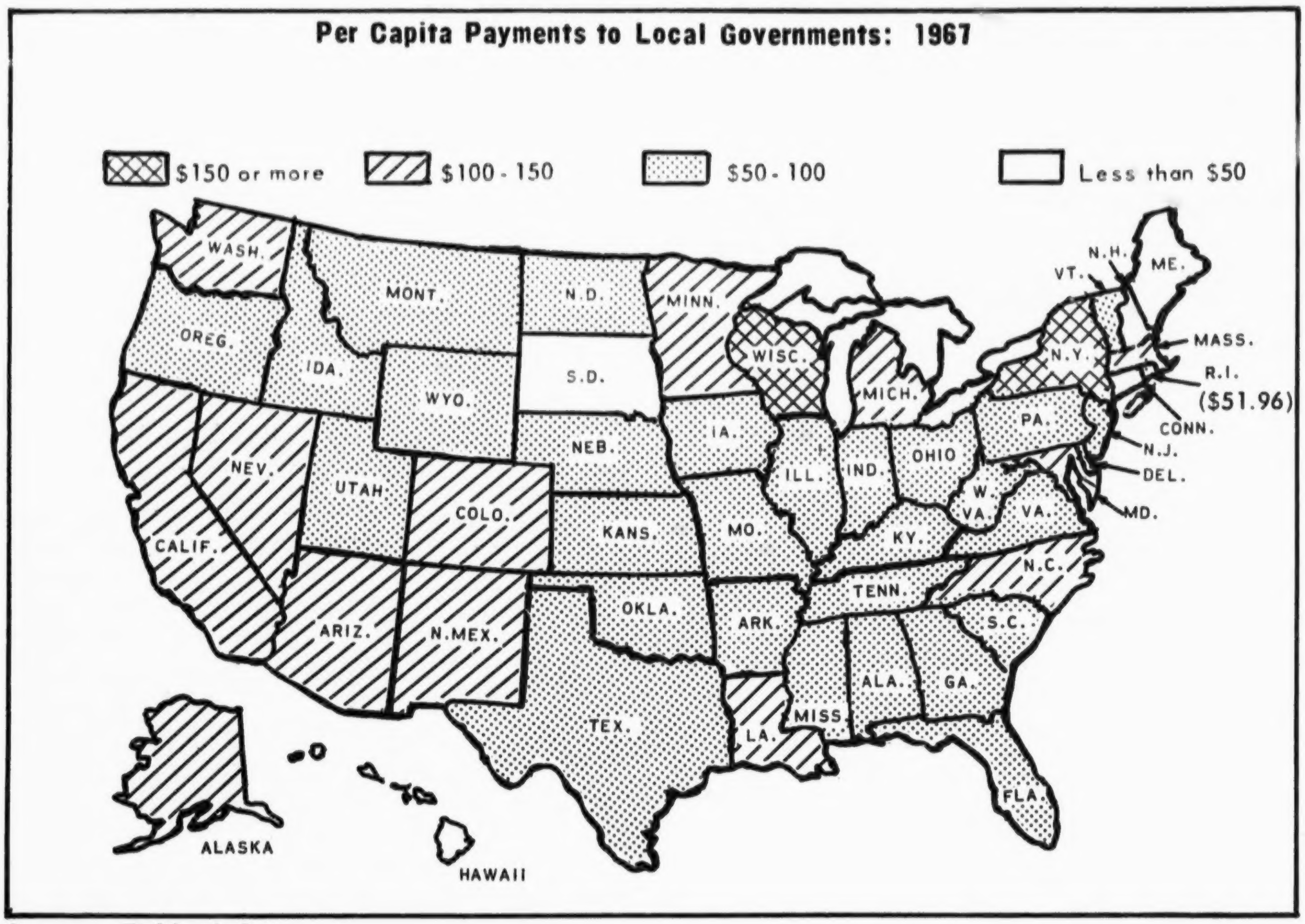
For these reasons then, State aid expenditures are but part of the picture regarding the scope and degree of State government involvement in particular functions. To gauge the total State and local financial participation in the provision of public services in each State, table A-3 relates State plus local spending to State personal income. In fiscal 1967 general expenditure of State and local governments averaged 13 percent of personal income and ranged from a low of 10 percent in Illinois to a high of 19.4 percent in North Dakota.

FACTORS INFLUENCING THE RELATIVE GROWTH OF STATE AID

Faced with unrelenting expenditure demands, local governments have responded by increasing their own tax rates, adopting new tax sources and expanding their debt. Such actions, however, have not been sufficient to prevent them from becoming somewhat more dependent in recent years on "outside" sources of finance–that is, State and Federal governments (figure 4 and tables A-4 and A-5). This relative expansion of outside financial sources for local revenue, however, represents the net effect of several forces–some of which have operated to

FIGURE 3

SOME STATES AID THEIR LOCALITIES
CONSIDERABLY MORE THAN OTHERS


Per Capita Payments to Local Governments: 1967
$150 or more
$100 - 150
$50 - 100
Less than $50
WASH.
OREG.
CALIF.
NEV.
IDA.
MONT.
WYO.
UTAH
COLO.
ARIZ.
N.MEX.
N.D.
S.D.
NEB.
KANS.
OKLA.
TEX.
MINN.
IA.
MO.
ARK.
LA.
WISC.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W. VA.
PA.
N.Y.
VT.
N.H.
ME.
MASS.
R.I.
($51.96)
CONN.
N.J.
DEL.
MD.
ALASKA
HAWAII

Source: Table A-2

expand the State financial role vis-a-vis their localities while others have tended to retard this development.

"Benefit Spillovers" and State Aid

One of the key arguments in favor of State aid rests on the growing interdependence of contemporary society. Developments in the areas of transportation and communications as well as the seemingly innate American tendency to personal mobility have all served as "the ties that bind." It is this increasing tendency toward greater interdependence that underscores the limited jurisdictional reach of rather fragmented local governments and the critical role of State and Federal financial support.

Where the recipients or beneficiaries of specific public services reside wholly or for the most part within the locality, this governmental level is the preferred agent for providing such services. For many public expenditure categories, however, recipients of program benefits are to a significant extent the non-residential population. Thus, for functions such as elementary and secondary education, public welfare, and public highways, functions which many consider the "crisis elements" in contemporary urban finance, benefits accrue not only to individuals in a particular locality but to residents in the remainder of the State and nation as well. For functions such as these, where interdependence or spillover effects are relatively heavy, sole reliance on local initiative may result in under-financing of the service in question. This is the case, since in providing these and other public services characterized by spillover effects, local residents will tend to concentrate on the benefits they receive and to discount or ignore benefits accruing to those who reside elsewhere. As a result, then, such functions tend to be under-financed unless outside assistance is secured.*

To be sure, the degree of interdependence differs from function to function and among the various programs within the broader functions. Nonetheless, the interdependence of contemporary life has left few areas that exclusively benefit local residents. According to one consideration of various functional programs, benefit spillovers are the rule and their absence the exception (table 2).

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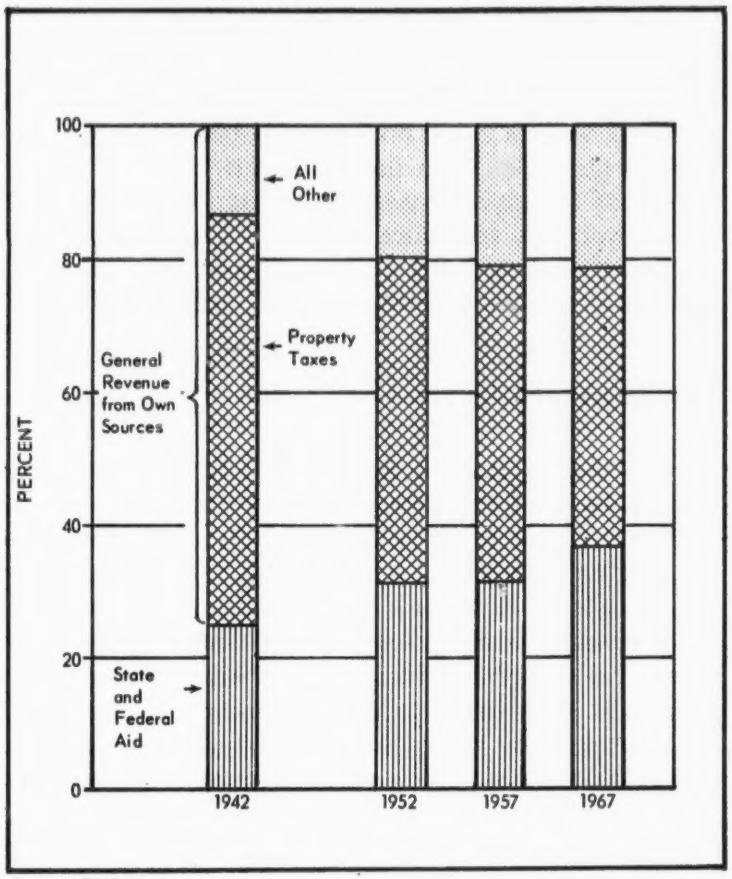
*This discussion assumes that benefit-spillovers are not precisely counter-balanced by benefit-spillins and cost-spillouts.

FIGURE 4

LOCAL GOVERNMENTS ARE BECOMING INCREASINGLY DEPENDENT UPON OUTSIDE REVENUE SOURCES



Source: Table A-4.

For public services characterized by such spillover effects, outside financial aid is both logical and essential. Where these spillovers are contained largely within a State, such governments would be the appropriate financial source. Indeed, one of the major purposes for which State aid is currently granted is to stimulate local governments to undertake new, or to expand existing, public services. Closely related to this objective is State assistance to finance certain demonstration projects where new concepts or approaches to problems can be tested out on a selective basis. Programs such as these then, are designed to cope with the spillover considerations and constitute attempts to offset the tendency of such effects to result in underfinancing at the local level.

TABLE 2–PUBLIC PROGRAMS CLASSIFIED ACCORDING TO ABSENCE OR PRESENCE OF SIGNIFICANT BENEFIT SPILLOVERS

Public program	Significant spill-over effects	Spillover effects not significant
Local Schools	x	
Transportation	x	
Public Welfare	x	
Health and Hospitals	x	
Police		
Basic Services		x
Special Services	x	
Fire		x
Water Supply	x	
Sewage Disposal	x	
Refuse Collection		x
Refuse Disposal	x	
Parks and Recreation	x	
Public Housing	x	
Urban Renewal	x	
Libraries		
Basic		x
Special	x	
Air and Water Pollution	x	
Urban Planning	x	

Source: George F. Break, *Intergovernmental Fiscal Relations in the United States*, (Brookings Institution: Washington, D. C.) p. 176.

Under this approach, States provide financial assistance for a variety of public programs. Typically, this assistance is limited to a portion of the total expenditure required, with localities having to put up the remaining sums. These funds are generally provided according to a formula that gives recognition to local "needs" for public services–for highway programs, measures such as number of road miles or vehicle registrations are frequently used. A more general measure of local need is population and, for particular functions, relevant subsets of this factor.

Equalization of Needs and Resources

A second major purpose in the granting of State aid is to be found in the need to bring local needs and financial resources into better alignment. As a result of economic growth and the greater interdependence of local governments demands have risen for a greater degree of equality over broader geographic areas. Thus, the pressure to upgrade the scope and quality of public services elsewhere has led to demands for improved services in specific local areas.

Great variations in local fiscal capacity stand out as one of the major barriers to the provision of more equal program benefits. State programs designed to equalize these variations are intended to provide a minimum level of service below which no locality is permitted to fall. Such service equalization programs are extensively used by State governments for the support of elementary and secondary education but are conspicuous by their absence in virtually all other fields in which the States extend aid to local governments. The minimum floor or foundation concept is achieved by gearing State aid inversely to some selected measure of local fiscal capacity. Thus, localities with limited tax resources receive relatively more State aid than do their richer counterparts for a given program and, to some extent, the variations in local fiscal capacities are narrowed.

The fact that equalization provisions are built into State aid programs, particularly for education, does not mean that measures of need for public services are not also used. One frequently used measure in the field of educational finance, for example, is the value of all taxable property for each child in average daily attendance. This approach can give explicit consideration to local fiscal capacity while at the same time incorporating an index of needs for public services.

Technological Advance

Another general factor that has affected State aid to local governments is the increasing size of the "efficient" or optimal local governmental unit. As noted earlier, an important part of this Report deals with the reallocation of functional responsibilities among governmental levels and a critical force in this regard has been technological advance which affects the public as well as the private sector. Perhaps the most dramatic manifestation of the impact of technological change on the public sector is the development and diffusion of the automobile. It generated demands not only for more roads but for an integrated network of a quality distinctly better than the dirt facilities of 1900–designed as they were for horse-drawn and bicycle traffic. The influence of technology is also apparent in the use of audio-visual and teaching machines–and its potential scope in the field of education is presently undefined–while the use of more elaborate capital equipment and techniques also marks efforts to abate air and water pollution.

As the provision of public services becomes more complicated and capital intensive, the possibility of generating economies of scale becomes ever greater. Such scale economies mean that even aside from questions of financial ability, the most efficient size of local government will tend to increase. The upward pressure exerted by technological change may take place either at the State level or at some intermediate stage between the State and locality–such as the metropolitan or regional district. Regardless of the ultimate resolution of this pressure, the thrust of the technological advance to date is to push the locus of public services away from the local governmental level.

Limitations of Local Property and Nonproperty Taxes

Aside from some of the large central cities and urban counties, the sole significant tax source of local governments is the property tax. Currently (fiscal 1969) yielding approximately $31 billion a year the property tax has withstood periodic waves of critical assault and continues to be the major source of finance for local governments.

Despite the wide scope for improved administration of the property tax[1] the fact remains that this tax has a relatively sluggish response to economic growth–certainly when compared with the personal income tax. As a result of this sluggish response and growing expenditure demands, local governments are continuously pressured into the search for additional tax dollars. Further increases in effective property tax rates, however, would only add to the already notable demand for property tax relief–evidenced by programs in Minnesota and Wisconsin to provide relief to the elderly and by formal and informal tax concessions granted by localities themselves.

Expansion of local nonproperty taxes is, of course, one option in attacking the revenue raising problems of local government. Levying such taxes, however, is generally regarded as inefficient for small, fragmented units since each locality must administer the tax and, because of its limited jurisdictional reach, must cope with additional compliance problems. Further, local income taxes encourage, to some extent, the exodus of middle and upper income families to the suburbs while local sales taxes tend to favor the shopping centers and wealthy communities where fiscal problems are less pronounced.

Because localities rely so heavily on the property tax, demands have been generated for additional State aid financed, as it generally is, from nonproperty tax sources–the general sales, personal and corporate income as well as other nonproperty taxes. Channeling a part of the yields from these taxes to the local level by means of intergovernmental transfers enables the State sector not only to reduce a major source of local fiscal tension but permits the recipient localities to share in a more diversified and productive revenue structure.

Home Rule and the Value of Pluralism

Running counter to the forces favoring a greater degree of financial centralization, is a strong emotional and traditional preference to "keep things local." Arguments in favor of localism usually center on the creative potentiality of local initiative with its encouragement to political participation and identification. Such arguments also stress the expertise of local officials whose knowledge of particular circumstances can be more acute than decisions reached by more distant authorities. Indeed, since programs carried out by upper level governments encompass all local jurisdictions with widely varying circumstances, they may conflict with or hamper particular localities whose unique situations are not adequately recognized.

A somewhat more sophisticated argument gives maximum focus to the pluralism of American life. According to one view, the multiplicity of local governments offers the opportunity for "consumers" of public services to exercise their sovereignty and to choose that locality which offers the public service-taxation package that best meets their individual preferences. Thus the large number of local governments and their varying public service-tax rate offerings are desirable *per se* because people are free to move among the localities. Just as the private sector adjusts to changes in demand by varying its level of output or product line, local governments–in response to migration flows and changing preferences–will adapt to differences in individual preferences for public services.

This identity of local taxes and local services, however, cannot be accepted as a valid generalization for all services provided by local governments since it gives no consideration at all to the presence of spillover effects. As mentioned previously, benefit spillovers appear to be the rule in the public sector and their absence, the exception. Nor can it be ignored that through their constitutions, State govenments are charged with responsibilities for financing public education, and that States historically have played a role in financing certain public functions performed by local governments.

Practical Checks to State Aid

Further checking the influence of forces leading to the growth of State aid are several more or less practical considerations. For one, many States have an anemic revenue base—failing to use a balanced tax structure and, in particular, making only limited use of the personal income tax, which is not employed at all in 15 States. While there is untapped revenue potential at the State level, it is nonetheless true that there is also considerable citizen reaction to higher State taxes. Thus, political initiative in adopting new taxes or raising rates on existing levies entails a risk of defeat at election time. To be sure, there has been much legislative activity in the post World War II period to add to the productivity of State revenue systems, but such past actions can evoke a cumulative reaction that makes further increases all the more difficult.

Even where successful in raising additional revenues, the granting of State aid requires a division of funds among localities. In this context, everybody naturally demands a piece of the pie, and such State expenditure programs require the resolution of standard conflicts between city and suburban as well as rural and urban interests. This plurality of interests then can result in the delay or even defeat of State aid programs.

THE NEED FOR REFORM

In contrast to the conceptual clarity of the major purposes of State aid, most, if not all, State aid systems need to be reassessed in light of the shift over the years in the nature of local communities. State aid systems that were devised during the early years of the century, either simply to distribute State funds on some egalitarian basis to urge localities into particular functional areas or to help support certain public services (primarily education and highways) that were deemed by State policymakers to be endowed with statewide interest, no longer meet the needs of an increasingly urban and technologically interdependent society.

The emergence of a set of "lopsided" communities, some with tremendous demands for public services and a deficit of resources to meet them, others with few demands on their treasuries and a surplus of resources, calls for drastic State action to rectify the imbalance. The States can no longer afford the luxury of dispensing State funds to all local governments without taking explicit notice of great variations in program needs. Some kinds of communities are so fiscally strong that they have little or no need for State aid. Others are so weak that no amount of State financial aid can make them viable—different means must be applied in such instances, including the possibility of eliminating some kinds of local governmental units by annexation, consolidation or other boundary adjustment policy.

One persistent criticism of State aid has been that it tends to perpetuate and prop-up inefficient units of local governments—units that simply are not capable of performing the public services currently demanded. This is particularly true with regard to State aid for education where innumerable small independent school districts receive outside finance in significant proportions. While encouraging progress has been made in reducing the number of school districts, it is nonetheless true that many such units still exist whose boundaries were more appropriate to the past than to the present—particularly in view of the great changes that have occurred in population distribution, the locus of economic activity and the greatly enhanced transportation network that now exists. In its worst form, State aid strengthens inefficient units—the first to oppose governmental reorganization—and is dissipated without accomplishing its objectives. State aid then should be geared to assuring that local units are capable in all respects—and not only financially—of delivering the intended services.

The same general forces also argue for a reinvestigation of governmental responsibilities for the provision of various public services. Where State and national interests are extensive, localities should not be the prime financing agent for a public service. Some centralization of financial responsibility has developed over the course of the recent past—particularly in the prime areas of benefit spillovers such as elementary and secondary education, public welfare and highways. An outright shift of financial responsibilities is a clear alternative to changing geographic boundaries. Both approaches offer the opportunity of making program benefits and costs more commensurate while reducing the fiscal disparities that presently mark the local scene. These advantages must be balanced continually, however, against the traditional and real political advantages of "local home rule."

There is also evidence to support the view that State aid as currently provided fails to constitute a system. Categorical aids for narrowly defined purposes are mixed together with a sprinkling of shared taxes, and both are then channeled among localities by a surprisingly diverse set of allocation criteria. The establishment of more rigorous organizational requisites, more forward-looking criteria for assessing local government viability, and more meaningful State performance standards to accompany categorical aids with such State aid programs to conform to comprehensive and functional planning objectives all are necessary reforms if State aid is to be effectively geared to meet the problems of today, rather than representing the cumulative responses to the pressures of the past.

Footnotes

[1] See, for example, Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, 2 Vols., A-17, Washington, D. C., June 1963.

TABLE A-1–PERCENTAGE DISTRIBUTION OF STATE AID TO LOCAL GOVERNMENTS BY TYPE OF LOCAL GOVERNMENT, BY FUNCTION, 1962 AND 1967

Type of local government	All functions		General local goverment support		Education		Highways		Public welfare		Health and hospitals		Misc. and combined functions	
	1967	1962	1967	1962	1967	1962	1967	1962	1967	1962	1967	1962	1967	1962
All local governments	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Municipalities	21.3	18.7	58.7	52.9	9.9	7.9	33.0	30.3	32.0	25.3	30.2	30.3	56.3	58.6
Counties	24.9	28.1	27.1	29.9	8.0	8.2	59.2	62.6	65.3	70.8	63.6	61.2	30.4	25.2
School districts	50.2	49.5	3.1	5.6	80.4	82.4	—	...	—	—	...	...	0.7	5.0
Townships[1] /	3.1	3.3	10.8	11.2	1.7	1.6	6.4	7.0	2.7	3.8	0.5	0.5	3.2	1.6
Special districts	0.5	0.4	0.4	0.5	—	—	1.4	—	0.1	0.1	5.8	8.0	9.4	9.6
Amount (in mill. of dollars)	19,056	10,906	1,585	844	11,845	6,474	1,861	1,326	2,897	1,779	301	189	567	295

[1] Includes New England towns which, in general, perform the same kinds of urban functions as do municipalities in other regions of the country.

Source: U.S. Bureau of the Census, *State Payments to Local Governments* 1962 and 1967, (1967 Census of Governments Vol. 6 and1962 Census of Governments Vol. VI)

TABLE A-2–PER CAPITA STATE INTERGOVERNMENTAL EXPENDITURE, BY FUNCTION, BY STATES: 1967

State	Total	General local government support	Specified functions					
			Education	Highways	Public welfare	Hospitals	Health	Miscellaneous and combined
All States	$ 96.70	$ 8.04	$ 60.11	$ 9.45	$14.70	$0.59	$0.94	$2.88
Median State	77.26	4.92	55.38	11.01	4.24	0.44	0.42	1.44
Alabama	82.63	2.12	65.84	11.28	—	1.90	0.51	0.98
Alaska	104.86	9.26	91.28	—	...	—	...	4.32
Arizona	103.73	24.77	65.49	11.62	—	0.41	0.40	1.03
Arkansas	71.36	3.94	53.10	12.73	0.04	0.71	—	0.83
California	144.87	5.49	66.25	14.33	48.77	0.54	2.08	7.41
Colorado	103.75	0.14	49.42	12.04	37.88	0.02	0.42	3.83
Connecticut	46.88	0.34	40.85	2.06	1.26	—	0.04	2.33
Delaware	135.28	...	126.75	3.93	2.00	...	...	2.60
Florida	70.62	0.23	62.10	2.87	...	0.39	0.28	4.74
Georgia	91.18	...	75.20	11.01	2.10	1.17	1.23	0.47
Hawaii	28.28	14.22	10.00	—	—	2.98	...	1.09
Idaho	74.58	4.92	54.78	14.32	—	0.54	...	0.03
Illinois	64.57	...	43.04	13.47	7.21	0.13	0.20	0.52
Indiana	86.06	3.88	55.40	15.78	9.71	0.29	0.48	0.53
Iowa	73.15	13.52	34.81	23.20	0.60	0.23	0.18	0.61
Kansas	87.90	4.79	52.30	6.15	22.97	0.69	0.14	0.87
Kentucky	64.70	0.68	58.55	0.89	—	0.71	0.93	2.93
Louisiana	107.47	17.56	80.01	6.15	—	0.90	0.51	2.34
Maine	40.76	0.48	35.02	3.18	0.72	—	0.01	1.36
Maryland	108.87	19.35	52.48	12.64	20.69	0.10	0.31	3.29
Massachusetts	117.26	29.74	33.90	2.81	44.53	0.79	...	5.48
Michigan	114.00	11.17	74.69	19.21	4.24	1.17	0.83	2.71
Minnesota	122.83	6.28	68.07	14.37	30.27	0.07	0.08	3.69
Mississippi	81.46	6.40	58.84	13.51	—	1.23	—	1.48
Missouri	54.22	0.90	47.32	4.30	0.15	0.45	0.15	0.95
Montana	53.79	—	49.15	0.29	0.24	0.06	0.03	4.02
Nebraska	54.54	0.80	13.54	14.68	23.29	0.52	0.36	1.34
Nevada	101.43	10.54	77.33	11.53	...	0.29	0.61	1.13
New Hampshire	21.08	5.01	13.42	0.73	0.08	—	1.47	0.37
New Jersey	60.63	1.11	38.46	2.27	15.40	1.17	0.45	1.77
New Mexico	135.80	3.96	123.59	5.84	...	0.21	—	2.20
New York	178.08	19.46	96.82	6.54	44.46	0.03	4.55	6.20
North Carolina	106.90	4.65	81.60	1.85	16.64	1.01	0.60	0.55
North Dakota	65.41	2.36	42.78	14.08	1.21	—	0.28	4.70
Ohio	61.49	7.49	32.36	15.41	5.16	0.34	0.22	0.52
Oklahoma	76.70	0.99	54.14	18.35	...	0.58	...	2.64
Oregon	96.79	17.26	57.36	19.32	0.72	0.03	0.60	1.49
Pennsylvania	67.68	0.52	54.31	5.54	2.39	0.05	0.93	3.94
Rhode Island	51.96	8.18	37.80	0.43	5.23	—	0.08	0.24
South Carolina	76.75	7.87	62.17	3.74	—	1.66	0.81	0.50
South Dakota	36.46	2.81	28.29	3.52	0.16	0.28	—	1.39
Tennessee	77.77	5.63	56.79	13.31	0.04	0.82	—	1.19
Texas	60.86	0.01	59.23	0.70	...	0.34	...	0.58
Utah	96.31	0.98	87.89	5.36	—	0.43	0.28	1.37
Vermont	61.95	0.02	43.75	12.02	1.30	...	...	4.85
Virginia	73.59	3.04	55.36	3.68	8.56	0.27	0.53	2.15
Washington	124.84	6.00	95.72	13.53	2.22	0.43	0.55	6.40
West Virginia	66.06	...	63.69	—	1.11	0.31	0.31	0.65
Wisconsin	150.73	68.94	42.60	22.05	11.19	4.53	0.48	0.94
Wyoming	111.70	7.07	72.47	8.84	15.95	4.81	0.27	2.28

Source: Bureau of the Census, Census of Governments 1967, Vol. 6, No. 4, *State Payments to Local Governments, 1967*, Table 4.

TABLE A-3–STATE AND LOCAL GENERAL EXPENDITURE FROM OWN SOURCES AS A PERCENT OF STATE PERSONAL INCOME, BY STATE, 1957, 1962, AND 1967

State and Region	1967	1962	1957	Percentage increase or decrease (–) 1957–1967
United States	13.0%	12.2%	10.8%	20.4%
New England	11.7	11.5	11.7	...
Maine	13.2	13.1	10.8	22.2
New Hampshire	11.8	11.0	14.8	—
Vermont	14.8	13.8	13.2	12.1
Massachusetts	11.6	11.7	12.2	– 4.9
Rhode Island	12.7	10.8	9.5	33.7
Connecticut	10.7	11.0	11.3	– 5.3
Mideast	13.0	11.9	10.2	27.5
New York	15.0	13.3	11.5	30.4
New Jersey	10.4	10.1	9.0	15.6
Pennsylvania	11.4	10.8	8.9	28.1
Delaware	15.1	10.8	8.6	75.6
Maryland	12.6	11.4	10.6	18.9
Dist. of Columbia	10.3	10.3	7.4	39.2
Great Lakes	11.6	11.5	9.8	18.4
Michigan	13.3	13.3	11.3	17.7
Ohio	10.8	10.7	9.3	16.1
Indiana	11.6	11.4	9.7	19.6
Illinois	10.0	10.2	8.7	14.9
Wisconsin	15.0	13.9	11.7	28.2
Plains	13.2	12.4	11.6	13.8
Minnesota	15.3	14.4	13.2	15.9
Iowa	13.1	13.3	12.2	7.4
Missouri	11.5	9.9	8.6	33.7
North Dakota	19.4	17.2	16.3	19.0
South Dakota	15.2	13.8	14.3	6.3
Nebraska	11.9	11.3	10.5	13.3
Kansas	12.5	12.4	13.1	–4.6
Southeast	13.0	12.6	11.1	17.1
Virginia	11.7	11.3	10.1	15.8
West Virginia	13.2	12.1	9.3	41.9
Kentucky	13.1	14.3	9.5	37.9
Tennessee	13.1	11.8	9.9	32.3
North Carolina	12.0	11.7	10.2	17.6
South Carolina	11.5	11.2	11.5	—
Georgia	12.1	12.1	11.2	8.0
Florida	13.7	13.0	12.2	12.3
Alabama	13.0	12.2	11.1	17.1
Mississippi	14.0	16.0	12.5	12.0
Louisiana	16.5	16.1	15.2	8.6
Arkansas	11.8	10.9	10.3	14.6
Southwest	13.0	12.1	11.1	17.1
Oklahoma	13.8	12.3	12.8	7.8
Texas	12.1	11.6	10.3	17.5
New Mexico	16.1	12.9	12.6	27.8
Arizona	15.7	14.7	13.4	17.2
Rocky Mountain	14.8	13.1	12.2	21.3
Montana	14.0	13.0	12.4	12.9
Idaho	14.7	12.9	11.8	24.6
Wyoming	17.7	14.4	12.3	43.9
Colorado	14.5	12.8	12.4	16.9
Utah	15.3	13.3	11.7	30.8
Far West[1]	14.9	13.6	11.8	26.3
Washington	13.8	13.7	12.5	10.4
Oregon	14.7	11.9	13.7	7.3
Nevada	15.5	13.7	12.3	26.0
California	15.0	13.6	11.7	28.2
Alaska	18.1	13.5	6.8	166.2
Hawaii	16.5	14.8	13.9	18.7

[1] Excluding Alaska and Hawaii.

Source: U. S. Department of Commerce, Office of Business Economics, *Survey of Current Business, August 1968*; U.S. Bureau of the Census, *Historical Statistics on Governmental Finances and Employment* (1962 Census of Governments, Vol. VI, No. 4) 1964 and *Governmental Finances in 1966-67.*

TABLE A-4–DISTRIBUTION OF LOCAL GOVERNMENT GENERAL REVENUE BY SOURCE AND BY TYPE OF GOVERNMENT, SELECTED YEARS, 1942-1967

Fiscal Year	All local governments		Percent distribution by type of government			
	Amount[1] (millions)	Percent distribution by source	Cities[2]	School districts[3]	Counties[2]	Townships & special districts
		Total General Revenue (Local Revenue & Federal-State Aid)				
1942	$ 7,075	100.0%	37.0%	33.7%	22.0%	7.3%
1952	16,952	100.0	32.0	38.4	20.7	8.9
1957	25,916	100.0	30.3	41.9	19.5	8.3
1967	60,236	100.0	26.8	47.0	17.8	8.5
		Intergovernmental Revenue (Federal and State Aid)[4]				
1942	1,785	25.2	24.0	43.8	27.8	4.5
1952	5,281	31.2	18.7	49.9	26.2	5.2
1957	8,049	31.1	17.6	53.6	23.5	5.3
1967	21,897	36.4	17.7	58.2	18.5	5.5
		General Revenue From Local Sources (Taxes and Charges)				
1942	5,290	74.8	41.4	30.3	20.0	8.3
1952	11,671	68.8	38.0	33.3	18.3	10.5
1957	17,866	68.9	36.1	36.6	17.7	9.6
1967	38,340	63.6	32.0	40.5	17.4	10.1
			Local Property Taxes			
1942	4,347	61.4	39.0	32.9	20.1	8.0
1952	8,282	48.9	32.7	39.2	19.8	8.3
1957	12,385	47.8	29.7	42.8	19.2	8.3
1967	25,418	42.2	24.8	48.9	18.5	7.8
			Local Nonproperty Taxes			
1942	358	5.1	70.1	14.0	10.1	5.9
1952	1,184	7.0	75.7	16.0	6.2	2.1
1957	1,901	7.3	72.5	16.4	8.5	2.7
1967	3,897	6.5	70.9	15.9	10.4	2.8
		Local Charges and Miscellaneous General Revenue				
1942	584	8.3	41.6	21.2	25.0	12.2
1952	2,205	13.0	37.4	20.2	19.0	23.4
1957	3,580	13.8	38.8	25.9	17.6	17.8
1967	9,025	15.0	35.5	27.5	17.2	19.9

[1] Includes the following approximate amounts of duplicative interlocal transactions: 1967–$1.5 bil.; 1957–$500 mil.; 1952–$100 mil.; 1942–$50 mil.

[2] Excludes est. amounts allocable to dependent school systems.

[3] Includes est. amounts allocable to dependent city and county school systems.

[4] Includes direct Federal-local aid as well as Federal aid channeled through the States.

Source: ACIR Staff computations based on U.S. Bureau of the Census data.

TABLE A-5–STATE INTERGOVERNMENTAL EXPENDITURE,* BY STATES: 1952 TO 1967

State	Amount (in thousands of dollars) 1967	1962	1957	1952	Per capita 1967	1962	1957	1952	Percent increase in per capita 1962 to 1967	1957 to 1967
All States	19,056,380[1]	10,906,400	7,439,321	5,043,798	$96.70	$58.94	$43.88	$32.55	64.1	120.4
Median State	(X)	(X)	(X)	(X)	77.25	49.15	38.02	28.32	63.2	123.9
Alabama	292,510	164,425	136,691	126,479	82.62	48.97	43.05	40.96	68.7	92.0
Alaska	28,523	14,217	(7,531)[2]	([2])	104.86	57.79	(33.03)[2]	([2])	81.5	([2])
Arizona	169,491	96,663	51,718	30,160	103.72	64.06	46.67	35.78	61.9	123.2
Arkansas	140,427	75,455	46,306	41,758	71.35	41.39	25.80	22.43	72.4	176.6
California	2,774,663	1,642,908	1,130,287	812,133	144.86	96.81	79.40	68.91	49.6	82.4
Colorado	204,914	145,755	112,929	81,580	103.75	76.43	66.70	59.20	35.7	55.5
Connecticut	137,135	81,843	38,041	23,671	46.88	31.51	16.55	11.54	48.8	183.3
Delaware	70,752	39,997	15,840	11,982	135.28	85.28	37.71	35.35	58.6	258.7
Florida	423,343	246,277	137,130	82,076	70.61	45.11	32.30	26.32	56.5	118.6
Georgia	411,140	203,944	142,882	98,407	91.18	49.74	37.29	27.25	83.3	144.5
Hawaii	20,900	24,564	(18,989)[2]	([3])	28.28	35.45	(32.46)[2]	([2])	-20.2	([2])
Idaho	52,133	32,323	20,241	13,109	74.58	46.31	31.68	22.52	61.0	135.4
Illinois	703,314	385,033	246,602	132,323	64.56	37.95	25.80	14.92	70.1	150.2
Indiana	430,294	238,911	165,399	127,113	86.05	50.67	36.43	30.64	69.8	136.2
Iowa	201,391	123,989	105,487	82,010	73.15	44.65	38.47	31.19	63.8	990.1
Kansas	199,965	117,378	91,818	78,335	87.89	52.94	43.28	39.72	66.0	103.1
Kentucky	206,322	123,684	64,427	43,855	64.70	40.13	21.91	14.97	61.2	195.3
Louisiana	393,555	254,103	187,487	115,043	107.46	76.31	60.07	40.38	40.8	78.9
Maine	39.662	22,253	14,026	11,317	40.76	22.28	14.87	12.45	82.9	174.1
Maryland	400,877	256,798	131,090	85,894	108.87	80.48	45.61	34.32	35.3	138.7
Massachusetts	635,642	319,172	254,294	189,887	117.25	61.84	52.19	41.08	89.6	124.7
Michigan	978,607	609,724	485,509	322,012	114.00	76.30	64.42	48.58	49.4	77.0
Minnesota	439,975	264,495	165,097	119,265	122.82	76.11	49.82	39.26	61.4	146.5
Mississippi	191,261	127,409	82,423	61,080	81.45	56.68	38.64	28.06	43.7	110.8
Missouri	249,571	141,209	91,906	63,818	54.21	32.49	21.58	15.91	66.9	151.2
Montana	37,709	22,770	14,188	11,352	53.79	32.12	21.43	19.02	67.5	151.0
Nebraska	78,259	45,624	35,536	37,301	54.53	30.74	25.49	28.58	77.4	113.9
Nevada	45,036	23,706	12,435	4,291	101.43	70.76	48.39	23.71	43.3	109.6
New Hampshire	14,463	6,664	4,476	2,910	21.08	10.54	7.77	5.44	100.0	171.3
New Jersey	424,592	197,996	124,878	67,964	60.63	31.70	22.28	13.42	91.3	172.1
New Mexico	136,212	93,409	55,626	32,333	135.80	91.58	63.94	43.28	48.3	112.4
New York	3,265,275[1]	1,521,419	926,054	630,923	178.08	87.43	57.15	41.41	103.7	211.6
North Carolina	537,594	336,181	214,478	68,808	106.89	71.06	48.28	([3])	50.4	121.4
North Dakota	41,794	24,289	19,185	13,502	65.40	37.83	30.50	22.01	72.9	114.4
Ohio	643,155[1]	499,389	376,732	260,938	61.49	49.46	40.59	32.05	24.3	51.5
Oklahoma	191,357	120,763	93,836	76,640	76.69	49.33	41.28	35.11	55.5	85.8
Oregon	193,476	101,440	69,036	50,389	96.78	54.42	39.79	31.59	77.8	143.2
Pennsylvania	787,036	461,048	419,588	187,327	67.67	40.53	38.33	17.77	67.0	76.5
Rhode Island	46,763	27,645	16,049	12,329	51.95	31.96	18.79	15.47	62.5	176.5
South Carolina	199,472	109,877	95,270	64,317	76.74	45.11	40.91	29.12	70.1	87.6
South Dakota	24,571	12,724	8,509	6,644	36.45	17.65	12.48	10.14	106.5	192.1
Tennessee	302,670	169,259	124,848	83,584	77.76	46.58	35.96	24.94	66.9	116.2
Texas	661,533	442,919	274,387	196,160	60.86	43.78	30.08	23.50	39.0	102.3
Utah	98,622	59,030	28,032	21,142	96.31	61.04	33.45	28.96	57.8	187.9
Vermont	25,835	12,086	9,868	6,080	61.95	30.99	26.18	16.26	99.9	136.6
Virginia	333,818	169,612	106,083	86,302	73.59	40.61	27.76	24.81	81.2	165.1
Washington	385,389	261,628	163,458	113,980	124.84	87.04	59.66	46.35	43.4	109.3
West Virginia	118,783	72,017	60,721	49,073	66.06	40.62	32.23	24.92	62.6	105.0
Wisconsin	631,414	335,438	247,524	191,574	150.73	81.97	65.10	55.32	83.9	131.5
Wyoming	35,185	26,838	20,914	14,628	111.69	73.53	64.75	49.25	51.9	72.5

*State aid to local governments, including Federal funds channeled through the States. In 1967 such Federal funds were approximately $4 billion, about 20 percent of total "State payments to local governments."

X Not applicable.

[1] Revised.

[2] Alaska and Hawaii figures are not available for 1952, and appear here for 1957 only as exhibit data, not included in totals for "All States."

[3] Not computed; prior-period amounts involved are not directly comparable.

Source: Bureau of the Census, Census of Governments 1967, Vol. 6, No. 4, *State Payments to Local Governments*.

Chapter II

Conclusions and Recommendations

Before outlining the policy recommendations in detail, a summary of the findings and conclusions of the Report will introduce the critical issues involved. Three major themes emerge.

SUMMARY OF FINDINGS AND CONCLUSIONS

- *There is a mismatch among governmental levels in the financial responsibility for the provision of public services.* This imbalance is caused by (a) the widespread State practice of forcing the local property tax to serve as the primary underwriter of both the local school system and units of local general government and (b) the present Congressional policy that requires State and local governments to pick up approximately one-half the nation's $10 billion public welfare bill. To redress this imbalance, the Commission calls upon the Federal Government to assume full financial responsibility for the public assistance function–including general assistance and medicaid–and for the States, as a long range objective, to assume substantially all the non-Federal share of elementary and secondary education costs.
- *With the major exception of public education, State aid distribution formulas generally fail to recognize variations in local fiscal capacity to support public services.* For such intergovernmental programs as public health and hospitals and highways, the Commission calls for States to include measures in their distribution formulas that reflect the ability and capacity of local governments to provide these services. This would add greater equalization to State-local fiscal relations and help assure that State dollars go to those local jurisdictions in greatest fiscal need.
- *In few if any States does State aid really constitute a "system."* To assure a more responsive and effective State aid structure, the Commission believes certain organizational aspects of the State-local fiscal system to be imperative, suggests criteria for assessing local government viability, and calls for the adoption of State performance standards to accompany categorical State aid, such programs to conform to comprehensive and functional planning objectives.

The need for these actions is underscored by the following findings regarding State aid generally and the major functions supported by State aid.

State Aid and Local Fiscal Needs

- Tremendous pressures on local government treasuries have resulted from increasing demands for more and better quality education, public welfare and health and hospital services, and new urban development programs–the need for a balanced transportation system in urban areas, the need to rebuild cities and to provide decent housing for all, and the need to control air and water pollution.
- State financial aid has been increasing steadily to an annual total exceeding $19 billion in fiscal 1967, but has barely kept pace with the growth in local expenditures, providing between 28 and 32 percent of local revenue over the past decade.

Education

- Characterized by heavy inter-jurisdictional benefits, the State government–rather than localities–should be the prime financial source.
- With steadily rising educational costs at the local level and only moderate increases in State education aid relative to those local costs, school needs are absorbing more and more of property tax revenues–the claims of education now account for more than half of the local property tax dollar, up from one-third in 1942.
- School equalization formulas, designed to provide more comparable educational opportunities throughout a State, nonetheless permit substantial variations in per-pupil expenditures and generally ignore the critical need for special assistance to those districts where the poor tend to congregate.

Public Assistance

- The public assistance problem is national in origin, national in scope, but nonetheless heavily financed by States and localities.
- The postwar migration of the poor from the rural areas to the large urban centers in search of enhanced job opportunities has saddled many of the large metropolitan areas with disproportionate shares of the public assistance caseload, bringing not only spiraling public welfare costs but additional educational, public safety, and other fiscal burdens.
- Benefit levels, eligibility criteria and fiscal capacity differ substantially among States–setting off an uneconomic migration of individuals to the "more generous" areas, while additional taxes to finance such programs tend to induce a counterflow of people and businesses away from the generous areas.
- In a number of States, local governments are required to finance a substantial portion of public assistance costs–over 20 percent of the total cost in seven States and in a few States, half or more of the nonfederally financed portion. Nonetheless, States–and particularly localities–have only limited policy or administrative control over public assistance programs.

Health and Hospitals

- An analysis of present State aid programs for the support of health and hospitals reveals that, with but few exceptions, State financial assistance is provided by distribution formulas that fail to recognize the varying ability of localities to support these services. This means that to provide comparable services throughout the State, disproportionate tax efforts by the poorer communities would be required unless greater reliance was placed upon equalization provisions for the distribution of State aid.

Highways and Mass Transit

- Urban transportation needs are beginning to be recognized by Federal and State highway administrators but there is still an urban-rural imbalance favoring the rural areas in the distribution of State highway funds.
- The long-standing policy in most States of earmarking highway-user taxes only for highway construction and maintenance needs to be reevaluated, especially by the urbanized States. The "anti-diversion" principle has, to be sure, contributed to the development of an unparalleled road network in this country, but new transportation requirements have arisen in our urban areas. There is now a recognized need for a balanced transportation policy in urban areas, encompassing both highways and mass transportation facilities–a need that requires a large infusion of funds. Broadening the application of highway-user funds to urban mass transportation facilities in addition to highways will help to mitigate the urban transportation problem.

Urban Development Programs

- The industrial States are beginning to recognize their financial responsibility for urban development programs. Twenty States now have agencies with concern for urban affairs and a few have embarked on multi-million dollar mass transportation, water and sewer, and urban renewal programs, thereby "buying in" to related Federal programs.

RECOMMENDATIONS

Transfer of Education and Public Assistance Functions

Recommendation No. 1–State Assumption of Substantially All Responsibility for Financing Education

In order to create a financial environment more conducive to attainment of equality of educational opportunity and to remove the massive and growing pressure of the school tax on owners of local property, the Commission recommends that each State adopt as a basic objective of its long range State-local fiscal policy the assumption by the State of substantially all fiscal responsibility for financing local schools with opportunity for financial enrichment at the local level and assurance of retention of appropriate local policymaking authority.* ** +

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*Mr. Daniel, Commissioner McDonald, and Congressman Ullman dissented from this recommendation and stated: "In our view, this recommendation overly circumscribes the financial, and therefore the innovative and experimental, role of local governments. We agree that financial arrangements for elementary and secondary education need to be strengthened by additional State aid; we do not agree that the transfer of this financial responsibility to the State is called for. Assumption of substantially all the financing of elementary and secondary education by the State runs the danger of achieving only a uniform educational mediocrity. While policymaking authority is to be retained at the local level by this recommendation, it is nonetheless clear that such authority is severely circumscribed in its efforts to achieve quality education. The effective divorce of expenditure decisions from revenue-raising responsibilities for public education runs counter to what we regard as good administrative practice."

**Congressman Fountain dissented from this recommendation and stated: "While I agree generally with the principle that extensive State aid is necessary to strengthen elementary and secondary education, as well as to relieve the growing burden of taxes on local property for school purposes, I cannot support the recommendation that States should assume

This recommendation rests on three key premises: That local property taxpayers must be relieved of substantially all the burden of underwriting the non-Federal share of education; that State assumption of such costs is the most likely route to the provision of equal educational opportunity; and that local policymaking authority over elementary and secondary education must be retained.

If this recommendation is to have real meaning, the amount of local supplement would have to be severely circumscribed–for example, to not more than 10 percent of the State program. Indeed, failure to require such a restriction would undermine two objectives–that of creating a fiscal environment more conducive to educational opportunity and that of relieving the local property tax base of the school finance burden. At present, several States–New Mexico, North Carolina, Delaware, and Louisiana–are within striking distance of this goal while Hawaii has assumed complete financial and administrative responsibility for the provision of public education.

The need to shield the local property tax base from undue school finance pressure is emphasized by the fact that local schools are constantly increasing their share of this tax source. Back in 1942 about one-third of all property tax revenue went to the educators; now it is slightly more than 50 percent.

A persuasive case can be made to support the proposition that the more local or municipal-type functions should have first claim on the local property tax base. Because the benefits of education clearly transcend the boundaries of the local school district, a higher level of government–the State–should assume the primary financial responsibility. Such State action will help to prevent local units of general government– cities and counties–from being gradually pushed off the local property tax preserve by the school boards.

The case for State assumption of substantially all of the non-federal share of financing education also rests heavily on the contention that only by this action will an approximate parity in resources per pupil be achieved. Just because the social and economic consequences of high quality–and low quality–education are felt far beyond school district confines, States should no longer tolerate significant variations in educational outcomes that result from accidents of fiscal geography. Yet so long as each local school district has wide latitude in setting its own tax levy, great variations in both wealth and willingness to tax will continue to produce significant variations in the resources behind each student. In short, both the content of educational financing and therefore the quality of education itself are to some extent presently shaped by local property tax geography.

In theory at least, State legislators could adopt "Robin Hood"-type equalization programs designed to skim off excess property tax wealth from rich districts and transfer these resources to poor jurisdictions. In practice, however, this is extremely difficult as State legislators can generally be expected to support proposals that will aid their districts and to oppose any bald attempt to transfer their district's wealth to poorer jurisdictions. As a result, most State aid programs at best are "mildly" equalizing; incredible as it may seem, many of them discriminate against the central cities where educational needs are the most dire. For this reason then, State aid programs generally fail to level off the great peaks thrown up by wealth and local fiscal autonomy and only partially fill in the valleys left by anemic local resources.

Because of practical political limitations on the power of State legislators to transfer funds, only two ways remain for States to come to grips with local educational fiscal disparities. They can either create, *via* consolidation, ever larger local districts or attempt to neutralize local fiscal variations by progressively increasing State aid to all local districts in the State. While many States have made remarkable progress on the school district consolidation front, there are practical administrative and political limitations upon just how far they can go. Districts left behind by the consolidation movement are frequently the most in need of such action and generally regarded as pariahs by their more affluent neighbors. As a result, State assumption of substantially all the non-Federal share of financing education looms as the approach most likely to achieve that long-standing goal of educators and the American people–the equalization of educational opportunity.

State assumption of complete responsibility for financing of education should leave ample room for local initiative and innovation in the field of public education. In fact, once liberated from the necessity of "selling" local bond issues and tax rate increases, school superintendents and local board members can concentrate their efforts on the true interest of local control–namely the nature and quality of education that is provided for the children of their locality. Further, the long tradition of local control of education and the keen concern of most parents for the educational well-being of their children will serve as sturdy defenses against both arbitrary State administrative action and any policy that short changes educational financial requirements. Indeed, there is reason to believe that forward looking State educational leadership would encourage and promote local educational innovations.

State assumption of complete responsibility for financing education is not Utopian. As previously noted, four States (New Mexico, North Carolina, Delaware, and Louisiana) are within striking distance of this goal while Hawaii, lacking a tradition of local control, has assumed

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substantially all financial responsibility for local schools. I believe further, that each State must determine for itself the most desirable balance of State-local funding for education in the light of its own history, traditions, and financial circumstances."

+Senator Mundt abstained from voting on this recommendation.

complete responsibility for both financing and operation of schools.

Nor does the long-range goal of substantial State financing need to be a wrenching experience. While budgetary considerations may well dictate a somewhat gradual rather than overnight substitution of State income and sales tax dollars for local property tax receipts, evidence suggests that perhaps as many as 20 States could *next year* assume complete responsibility for public school financing if they were willing to make as intensive use of personal income and sales taxes as the "top ten" States now make on the average. Thus, when viewed alongside the resultant and dramatic decrease in local property tax loads, State assumption of financial responsibility loses its idealistic cast and takes on the appearance of a realistic and equitable readjustment of the total tax burden.

The Commission recognizes that perhaps the most serious argument against this proposal is the condition of political apathy prevailing in some States where there is no widespread demand for this kind of departure from the *status quo*. For this reason, assumption of substantially all the non-Federal share of school expenditures by the State is presented as an objective toward which all the States must work, with a few crossing over the goal line each year. Recognizing the very great importance of local policy control over schools and the need for some leeway in meeting unusual financial situations, the Commission recommends that local school districts be permitted to supplement the State contribution, but on a limited basis. This limitation could be effected by a statutory provision restricting the use of local property taxing powers for schools to, say, 10 percent of the funds provided by the State to the locality during a designated fiscal period.

Recommendation No. 2–National Government Assumption of Full Financial Responsibility for Public Assistance (Including General Assistance and Medicaid)

The Commission concludes that maintaining a properly functioning and responsive public assistance program as presently operating is wholly beyond the severely strained financial capacity of State and local government to support. The Commission therefore recommends that the Federal Government assume full financial responsibility for the provision of public assistance. The Commission further recommends that the States and local governments continue to administer public assistance programs.

The Commission wishes it understood that these recommendations are designed to relieve inequities of resource capacity among the levels of government and apply until such time as Congress and others shall determine a more efficient and appropriate method of welfare administration applicable to the complex social problems of our time.* ** +

A sense of urgency presently surrounds the public welfare debate. Although State and local governments contributed almost half of the $10 billion needed to underwrite public assistance programs in 1968, an intergovernmental "showdown" is imminent. The crisis is the product of many factors–recent court decisions striking down State residence requirements, great variations in State welfare benefits, the rapid rise in AFDC and Medicaid costs particularly in the more urbanized States, and the growing expenditure demands of programs that are more favored at the State and local level than public assistance.

Full Federal assumption of financial responsibility for providing public assistance, however, need not be regarded as a "final solution." Rather, alternative approaches–such as the negative income tax or family allowance plans, or some other plan–might ultimately prove more effective in meeting the needs of the poor. For the present, however, assumption of public assistance programs by the National Government stands as the most readily available proposal to meet the absolutely impossible and inequitable fiscal and tax situation into which States and their localities have been placed.

Because of their limited jurisdictional reach and fiscal capacities, State and local governments simply cannot adequately provide necessary public assistance to needy and medically indigent people. Neither of these governmental levels can afford to get too far out of line with its neighbors regarding either expenditures for such programs or the consequent tax rates. To do so would introduce further elements of "locational pull"–as recipients or potential recipients seek higher program benefits–or "locational push," as individuals and businesses seek to leave high tax areas. Such expenditure or tax differentials, however, can set off counter-reactions having the effect of nullifying initial intentions–a danger that is further highlighted at the local level where the greater homogeneity of other factors make expenditure or tax differentials all the more prominent.

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*Congressman Fountain, Congressman Ullman, Senator Knowles and Commissioner McDonald dissented from this recommendation and stated: "The Commission's recommendation that the National Government assume full financial responsibility for public assistance is incompatible with a fundamental premise this country has always operated on–that people in the same community have responsibilities toward their neighbors. By calling for continued State and local administration, it divorces the essential link between the spending and revenue raising responsibilities. Moreover, by simply shifting financial responsibility to the Federal Government, the recommendation does not come to grips with the more fundamental weaknesses in the existing welfare structure–its extremely high administrative costs and unequal treatment of people in like circumstances. We believe it more desirable to give immediate attention to finding better ways of dealing with the poverty problem, rather than attempt to modify existing arrangements for the sake of relieving State and local government of a fiscal burden. We all recognize that State and local governments are in financial difficulties and that changes in financing arrangements must be sought but we do not believe that the solution of this problem can be found in the expedient proposed by the majority with respect to public welfare."

**Senator Mundt abstained from voting on this recommendation.

+Commission members from the Federal Executive Branch (Secretary Finch, Secretary Romney and Budget Director Mayo) abstained from voting on this recommendation because of insufficient opportunity to review and analyze its implications.

In point of fact, differences among States in program benefits and eligibility requirements work in a perverse direction. States that are unable or unwilling to provide a minimum level of public assistance compatible with family needs find their share of caseloads diminishing while States meeting this obligation find their welfare rolls expanding. A woman travelling from Mississippi to New York with nine of her twelve children was recently denied public assistance on the ground that going on welfare was her sole aim in moving to New York City. By coming to New York, a woman with twelve children would receive about $640 more per month than she would in Mississippi. For the more typical family of four, Mississippi provides an average monthly payment of $35 while in New York, the recipient is eligible for $241 a month–enabling the recipient to recoup, *within a single month* the total bus fare from Jackson to New York City. While it is not possible to determine the number of people who are lured solely by such differentials in program benefits, it is nonetheless clear that these variations–over and above accounting for cost differences among geographic areas–tend to promote a flow of low income individuals into the large metropolitan centers.

Perhaps the more important factors, however, are unemployment and underemployment which force many of the employable poor onto the welfare rolls. Lack of job opportunities for the less well educated and unskilled results ultimately from national forces that have transformed the economy–forces beyond the control of State and local governments. Thus, the search for better jobs–a search that promotes the national interest–nonetheless becomes a penalty for State and local jurisdictions when job seekers are frustrated.

As a more practical matter, State and local governments simply do not fully exploit the individual income tax–the logical tax levy for redistributing income. While there is potential use for this tax levy by State governments, it is not well-suited for localities–except the large central cities. As a result, State and local financing of public assistance tends to fall harder on the poor than would an individual income tax–the mainstay of Federal revenues. Thus, the use of State and local revenues to provide services *for* the poor in a sense results in disproportionate support *by* the poor.

Shifting financial responsibility for public assistance programs to the Federal Government would tend to reduce or eliminate constraints that presently hamper State and local government efforts to provide other public services. While relieving all sub-national units of this responsibility would free up about $4.6 billion of State and local revenues, it would be of particular benefit to those States and cities where the poor have tended to congregate. As such it would reduce tax competition between city and suburb, for example, and at the same time, serve to reduce the pressures on the local property tax.

To some, a proposal to remove State and local governments from financial responsibility for public assistance programs poses the danger that the nation will lose control of this problem. More persuasive, however, is the argument that States and particularly localities now have little effective control over such programs anyway–witness, for example, the recent Supreme Court decision prohibiting State residence requirements. The immediate effect of this decision is to increase the welfare caseload since those not meeting the eligibility criteria solely because they failed to reside in a jurisdiction a sufficient length of time are now able to receive public assistance. By striking down residence requirements, the decision also had the effect of reducing a barrier to migration which may add to the flow of individuals toward the more generous States. Both effects then will serve to exacerbate the State-local fiscal strain imposed by public assistance.

To the extent, however, that State and local governments are forced to trim welfare rolls to their budgetary capabilities rather than the legitimate needs of the poor, then there is no truly national welfare program. To assure an equitable system both among individuals and governments, it must therefore be nationally financed. Such a national welfare system, however, must be flexible enough to accommodate its benefit schedule to the diverse living costs of the rural South and high cost urban areas, particularly those located in the North. Full Federal assumption of the welfare system should not work to the detriment of recipients who presently reside in States with the more generous benefits; it should assure a basic standard of living regardless of geographic area.

The advantages of the National Government assuming full financial responsibility for public assistance programs far outweigh the above reservations. Such advantages are the achievement of a more equitable and adequate standard of benefits throughout the country, and the removal of a contributing source of fiscal pressures on those State and local units beset by diminishing fiscal resources and disproportionate shares of the poor.

Federal assumption of full financial responsibility for public assistance raises the question of administrative responsibility. Would it be desirable to continue State-local administration, perhaps under stronger Federal guidelines and direction, or shift to direct Federal administration?

Direct Federal administration could be effected by using the 700-odd district and branch offices now administering Social Security and Medicare programs. A second possibility would be to transfer State and local personnel currently administering public assistance to the Federal payroll and place them under the supervision and direction of the HEW regional directors.

Other programs provide precedents for continued State administration under full or near-full Federal financing. The United States Employment Service is run by the States but for all practical purposes is a Federal operation since Federal funding of administrative costs is 100 percent. In addition, for three years the Community Action Program under the Office of Economic Opportunity has been funded at 80 to 90 percent by the Federal Government, with a liberal allowance of in-kind contributions by local bodies which in many cases effectively has meant 100 percent Federal financing. Yet these programs were essentially carried out at the local level by non-Federal personnel and organizations.

On balance, the Commission believes that the continued viability of our federal system and widespread public support for keeping this program "close to the people" argue in favor of retention of administrative responsibility of the public welfare program at the State and local level while nationalizing its funding.

Issues and Costs Involving the Transfer of Education and Public Assistance Financing to the State and National Governments

Fiscal centralization. Recommendations calling for Federal financing of public assistance trigger the claim that the inexorable logic of fiscal centralization will also lead to the nationalization of school financing. There are, of course, parallel issues in both these functional fields—centering around the national interest in these functions, the growing mobility of the population, and the revenue limitations of States and localities. Both functions are marked by "benefit spillovers"—the respective services presently provided by these governmental units spill over and thus affect not only residents but others living outside the particular locality and State as well. Similarly these functions are constrained by State-local financial limitations—regarding both the property tax and the potential use of non-property tax revenues.

If these were the only relevant considerations, then the same "fiscal solution" ought to be applied in both instances—particularly since no hard evidence exists that the relative importance of these issues differs substantially between the two functions. There are, however, further considerations that do appear to differ markedly between the two functional areas.

For one, fiscal considerations may prove the decisive barrier to anything approaching complete Federal financing of local schools. While there is currently a Federal contribution to financing of public education—and one that will probably grow steadily in amount if not in proportion—nationalization of school financing does not appear as a viable proposition for the foreseeable future. The Federal Government currently underwrites only 7 percent of the costs of local schools—out of total educational costs of approximately $34 billion. At most then, the Federal Government will assume a strong secondary role—that of equalizing variations in needs and resources among States and stimulating efforts in certain program areas. By way of contrast, the Federal Government already finances more than half of the nation's $10 billion public assistance bill.

Beyond the fiscal dimension, the need for alternative solutions for these two functional areas is underscored by the fact that while there is an intense political loyalty to the concept of "local schools", no comparable citizen identification or involvement exists regarding public assistance. Nothing—in folklore or in fact—rivals "the little red schoolhouse" or the "school marm." To be sure, this point involves subjective as well as historical and traditional valuations. It is nonetheless true that the school marm and the welfare worker are not held in comparable civic esteem.

A closely related point that further highlights the differences between public education and welfare is to be found in the fact that a highly successful State-local education program can be thought of as its own reward—even if benefits flow to those who do not help finance it. To educate one's children not only in an academic sense but in a context of social and civic responsibilities may be deemed sufficiently worthy to incur the necessary additional fiscal burdens. *Moreover, State and local policymakers are becoming increasingly aware that a high quality educational system stimulates economic development.*

No comparable situation exists in the public welfare field. These programs and the necessary related services of housing, health, etc., are applicable to a much smaller number of individuals and receive far less support among the general public. They seem to have as their ultimate reward the need to provide comparable services to additional recipients who were initially attracted, in part, by the welfare program itself. In short, the very hallmark of State-local government—its diversity, its innovative practices and its potential for experimentation—seem to be far more relevant for public education than for public welfare. Indeed, Federal regulations accompanying public assistance grants not infrequently bear the stamp of "Papa knows best," while those accompanying education grants—except in the field of civil rights—provide wide latitude for and actually encourage experimentation. For public education, diversity in program levels—sufficient to avoid a uniform mediocrity but constrained to assure a slowdown in interstate economic competition—seems preferable.

It is precisely this element of diversity in program benefits among States that introduces the critical issue of locational pull and push—as actual and potential welfare recipients seek those areas offering the highest benefit levels and easiest eligibility requirements. At the same time, however, taxpayers seek to avoid the extra payments necessary to finance such programs since they see no resulting services to themselves and do not place welfare high in their value system. Thus, in the public assistance field, the diversity that exists as a result of State-local initiative works against the innovative approach and in favor of laggard States who find their caseloads reduced because of their meager programs.

Two further considerations stem from the locational argument. At the heart of the public welfare function is the decision to supplement the income of the poor; this is done by the redistribution of income. Because of their narrow jurisdictional reach and the limited actual or potential use of the individual income tax—the logical source of funds for redistribution purposes—State and local welfare efforts can be nullified by the interstate and interlocal migration of individuals.

Secondly, much of the migration that does take place is a response to better job opportunities. As such, it is a result of the transformation of the economy itself—away from agriculture to manufacturing and service occupations. This migration then originates from changes in the national economy brought about by the nation as a whole. For this reason, there is more than a national aspect of public assistance; there is a national origin. What remains, therefore, is to establish a national responsibility.

Fiscal effects. The combined effect of these two recommendations for the nation as a whole would be to relieve local budgets of $13 billion and to add $9 billion to State government revenue requirements (table 3). These calculations, which relate to 1967, assume an immediate rather than a phased State assumption of elementary and secondary school financing. With the solitary exception of Hawaii, local governments would find their financial responsibilities diminished while States would find their fiscal needs augmented. The magnitudes differ vastly among the States and localities reflecting, as they do, the widely disparate State-local financial patterns presently existing.

To meet their expanded revenue needs, State governments would undoubtedly have to tap the freed-up taxpayer capacity made available by the local government tax relief. In short, State income and sales taxes would to a significant extent replace local property tax dollars—a desirable achievement in itself. If this were the sole avenue available to States, just under 70 percent of the freed-up local revenues would have to be taken over by the States. Even so, the combined State-local tax requirements would, in 1967, have been reduced by about $4.0 billion. Thus the taxable capacity is there, though large-scale tax programs will have to be enacted to divert these resources to the State sector. Further, assistance by the Federal Government in the form of revenue-sharing with States and localities and the long-range nature of the State assumption of the education objective serve to assure the Commission that the financial shifts called for are attainable goals.

TABLE 3—EFFECT ON STATE AND LOCAL FINANCING OF 90 PERCENT STATE FINANCING OF ELEMENTARY AND SECONDARY EDUCATION AND 100 PERCENT NATIONAL FINANCING OF PUBLIC ASSISTANCE, INCLUDING MEDICAID,* 1967
(Dollar amounts in millions)

State and region	Required increase or decrease (–) in State revenue		Local revenue relief	
	Amount	Percent[1]	Amount	Percent[2]
United States	$8,992.3	23.8	$12,996.0	33.9
New England	572.4	26.5	849.3	37.7
Maine	49.0	29.4	59.2	40.9
New Hampshire	53.8	60.0	60.3	48.5
Vermont	30.0	31.1	35.1	62.9
Massachusetts	262.8	24.4	436.5	36.4
Rhode Island	20.2	11.8	44.9	31.6
Connecticut	156.5	28.1	213.2	36.3
Mideast	2,002.2	23.3	3,327.4	33.5
New York	780.9	16.8	1715.0	32.2
New Jersey	513.1	50.4	624.3	38.7
Pennsylvania	468.6	23.5	661.3	34.6
Delaware	4.7	2.7	10.2	14.8
Maryland	234.9	31.8	303.3	42.6
Dist. of Columbia	—	—	13.3	4.2
Great Lakes	2,299.1	33.3	2,909.1	38.7
Michigan	329.3	17.9	495.4	29.6
Ohio	618.4	44.0	754.5	39.0
Indiana	302.9	31.4	331.4	34.8
Illinois	748.4	45.4	962.6	42.9
Wisconsin	300.1	28.3	365.2	50.6
Plains	1046.7	35.5	1,277.5	39.5
Minnesota	244.7	30.1	317.1	38.9
Iowa	229.2	42.0	267.2	45.6
Missouri	206.5	29.4	263.6	33.5
North Dakota	46.2	28.8	54.1	46.4
South Dakota	51.7	43.2	58.7	44.8
Nebraska	109.7	60.5	123.8	37.4
Kansas	158.8	37.0	193.1	41.3
Southeast	900.1	11.9	1,224.3	23.8
Virginia	208.0	27.1	225.3	39.1
West Virginia	45.4	13.7	61.3	35.5
Kentucky	50.2	8.9	81.1	23.5
Tennessee	94.4	16.4	118.9	25.1
North Carolina	52.1	5.4	86.1	19.5
South Carolina	24.1	5.2	33.5	18.0
Georgia	60.0	7.9	93.7	16.1
Florida	239.1	24.1	271.2	22.5
Alabama	23.3	4.1	53.8	15.6
Mississippi	37.8	10.2	52.2	20.5
Louisiana	31.8	3.5	90.6	23.6
Arkansas	34.1	10.6	56.8	31.9
Southwest	513.6	18.2	677.3	28.4
Oklahoma	83.0	15.8	147.4	42.6
Texas	336.3	20.4	414.6	25.4
New Mexico	7.3	2.6	18.5	15.7
Arizona	86.9	23.6	96.7	33.2
Rocky Mountain	320.7	31.7	401.6	42.4
Montana	61.4	49.6	71.6	48.9
Idaho	29.8	19.5	35.7	31.0
Wyoming	24.8	31.0	28.5	36.2
Colorado	159.7	37.2	209.9	45.9
Utah	44.9	20.0	55.8	37.5
Far West[3]	1,342.0	24.8	2,316.7	34.2
Washington	61.1	6.9	126.9	24.0
Oregon	153.0	36.4	181.6	43.9
Nevada	23.4	23.0	27.3	22.1
California	1,104.6	27.6	1,981.0	34.7
Alaska	9.2	9.6	12.8	29.4
Hawaii	–13.7	–5.2	—	—

*As the Medicaid program becomes fully operative in all States, the effect of National Government assumption of full financial responsibility for public assistance *including* Medicaid will become more pronounced. In fiscal 1967, the State and local expenditure for Medicaid was about $1 billion; in fiscal 1968 it had increased to $1.7 billion.

[1] Required increase as a percent of State general revenue from own sources.

[2] Local revenue relief as a percent of local general revenue from own sources.

[3] Excluding Alaska and Hawaii.

Source: U.S. Department of Health, Education, and Welfare, Social and Rehabilitation Service, and Office of Education, *Digest of Educational Statistics, 1967*; and U.S. Bureau of the Census, *Governmental Finances in 1966-67.*

Equalizing Educational Opportunity

Recommendation No. 3—State Compensation for "Municipal-Overburden" in the Absence of Substantial State Support for Schools

In States that have not assumed substantially full responsibility for financing education, the Commission recommends that they construct and fund a school equalization program so as to extend additional financial assistance to those school districts handicapped in raising sufficient property tax revenue due to the extraordinary revenue demands made on the local tax base by city and county jurisdictions.

State school support programs are underpinned by an assumption that becomes more questionable with each passing day—the proposition that if two local school districts have the same amount of equalized full value assessment behind each student, they then have the same capability to raise tax revenue for school purposes. It is quite conceivable, for example, that a high income suburban school district and a central city district might have tax bases with approximately the same amount of full value assessment behind each of their students, yet due to "municipal overburden" the central city school district could not begin to exploit its tax base for educational purposes to the same degree as the suburban district.

The "municipal overburden" stems from the fact that the central city is forced to put first things first—thus the demands of law and order and poverty related needs are reflected in extremely heavy outlays for police, fire, sanitation and public health services. As much as two-thirds of all local tax revenue in the central city therefore may have to go for these "custodial" type services while many suburban districts with relatively light municipal demands can put two-thirds of their property tax revenue into the "developmental" area—education. Thus municipal overburden and the generally lower income of central city residents place powerful constraints on the ability of central city school boards and make it virtually impossible for them to maintain the same educational opportunities as their suburban neighbors.

The case for recognizing municipal overburden in State school aid programs is further supported by the fact that no longer is it possible to view education as completely divorced from all other local governmental functions. The experience with Federal "Title-I" money of the Elementary and Secondary Education Act of 1965 and experimental programs in central cities show that public schools by themselves cannot overcome deep seated social and economic problems. Educators have begun to exhibit deep awareness of the need for coordinating school programs with welfare, health and other essential social services provided at the local level. In view of the need for such activities and their impact on the environment in which the learning process operates, the demand they make on local resources should be recognized in the measure of local ability to support public schools.

Michigan has demonstrated the feasibility of including in its education equalization formula a factor that will assist those localities plagued by extraordinary non-educational expenditures. If the *total* tax rate applicable in a district is 125% or more of the total tax rate for the rest of the school districts, its valuation for educational equalization aid purposes is reduced proportionately, thereby increasing its portion of aid monies.

Some may object to this proposal for building "municipal overburden" into a State school aid program on the grounds that it is "back door" financing of City Hall. They favor the "front door" approach—if the central cities are overburdened, then they argue the State should provide direct aid for hard-pressed municipalities. Others, however, take the position that the critical need is for the State to recognize municipal overburden. If State aid can be delivered to the front door—fine; if that approach is not politically feasible, then go the back door route—by building a municipal overburden factor into the school aid program.

Health and Hospitals

Recommendation No. 4—Greater State Use of Equalization in State Aid for Public Health and Hospital Programs

To avoid disproportionate tax efforts by poorer local jurisdictions, the Commission recommends that greater reliance be placed upon provisions to equalize among local jurisdictions in terms of fiscal capacity, need and tax effort to govern the distribution of State aid for public health and hospital programs.

The financial practices of State governments in aiding public health and hospital services reveal that with few exceptions those States using intergovernmental transfers take no cognizance of the variations in local fiscal capacity. While the use of intergovernmental transfers is relatively limited—amounting to $185 million for public health and $115 million for public hospitals in 1967, a large but undetermined amount of which comes from the Federal Government—equalization provisions would help to gear this State financial assistance predominantly to those jurisdictions where needs and resources diverge most sharply. Furthermore, differences in tax rates to finance comparable programs would be avoided.

While greater equalization would help the poorest areas of a State provide more adequate personnel and facilities, financing from service charges, fees and third party payments may help mitigate tax pressures in these areas. The Commission believes, however, that where public health and hospital facilities are currently financed from State as well as local resources, explicit recognition of variations in local fiscal capacity would tend to provide more comparable facilities throughout the State without requiring disproportionate tax efforts in poorer jurisdictions.

Highways and Mass Transportation

Recommendation No. 5—Revamping the Federal Highway Aid Program

The Commission recommends that the Federal-Aid Highway Act be revised to replace the existing primary, secondary and urban extensions program with a new system aiding development of State highways, urban major street and highway networks, and rural secondary highway systems, together with provision for coordinating street and highway development with mass transportation facilities in urban areas.

Because the Federal Government has an important financial and policymaking role in the highway field, the Federal aid highway program cannot be ignored in an assessment of State highway aid to local governments. The development of a highway system was recognized as a national problem in 1916 when the Federal aid highway program was enacted as a 50-50 Federal-State partnership. Together with the massive interstate highway construction program started in 1956, 90 percent financed by Federal funds, this partnership is now completing a network of high-speed highways from coast to coast and from border to border.

Now that the planned interstate system is nearing completion, the attention of the nation is turning to the problems of urban transportation. The need for a balanced transportation program in the urban areas—coordinating streets and highways with bus, rail and other modes of mass transit—is expressly recognized in Federal legislation and has spurred the establishment of a United States Department of Transportation. Eight States have established similar agencies and others are considering such a move.

Currently the Federal Government finances almost one-third of highway costs, the States about one-half, and local governments about one-fifth. Almost three-fourths of the non-Federal financing for highway construction and maintenance comes from State funds—both in direct State spending and in aid to their localities. However, despite the much higher costs involved in urban streets and the recent shift in emphasis by Federal and State highway officials toward urban road and transportation needs, State programs reveal a strong rural focus. Two-thirds of all State highway aid is for counties and rural townships and, except for the urban extensions of the State primary and secondary systems, all direct State highway construction and maintenance is in the rural sectors. Yet although the Federal Government is now helping local governments finance mass transit facilities, only a handful of States are doing so.

The Commission is convinced that, just as the Federal, State and local governments have joined forces over the past century to build the intercommunity and interstate highway network, so must they now focus their attention on the critical problem of intra-urban transportation.

We have not, in the context of this study, considered the alternative to State financial aid—State assumption of responsibility for highway construction and maintenance. *We would, however, urge each State to consider the appropriate division of such responsibility following a detailed study and functional classification of its highway system.* A national framework for such a classification is being developed by the Federal Highway Administration as a basis for updating the present highway systems and developing the needs for and the benefits to be derived from future highway investments. As each State, in cooperation with its local governments, develops its functional highway classification, it can determine the appropriate administrative roles to be assigned to the State highway agency, the counties and cities or, in metropolitan areas, to some regional grouping of local governments.

For highways not in the Interstate System, the present method of providing Federal aid inhibits coordinated development of highway systems by encouraging States to develop route designations according to the funds awarded under allocation systems which do not adequately represent today's needs. Moreover, it distributes funds to States with widely varying standards for the classification of routes.

The Federal grant program for the primary system was established in 1921. In determining the basis for allocation it excludes routes in urban areas, on the Interstate System, and in some other categories with the result that mileage not creditable to the allocation plan ranges from 5% in North Dakota to 82% in Rhode Island.[1] Under Federal aid for the secondary system, coverage, which is determined according to criteria established by the various States, ranges from 3% of all road mileage in Wyoming to 35% in North Carolina.[2] As a result of these allocation systems, aid is often distributed on an individual project basis without regard to development of comprehensive route systems.

Problems are particularly acute in urban areas because Federal aid for such uses has been limited by statute to 25% of the total available for non-Interstate routes and generally must be applied to routes which connect to primary or secondary systems outside the urban area. Prior to 1968, major routes for movement of traffic *within* urban areas received no Federal aid unless designated as extensions of primary or secondary roads. With enactment of the Federal-Aid Highway Act of 1968, there is now limited Federal assistance for traffic facilities not on the primary and secondary systems under the TOPICS program (Urban Area Traffic Operations Improvement Program), which provides for traffic engineering and minor reconstruction projects.

To promote orderly development of highway systems, funds now allocated under the primary, secondary and urban extensions (ABC) program should be distributed under a formula that recognizes a new functional classification of State, urban and rural routes. The State system would support intrastate routes both inside and outside urban areas. It would include the present Interstate system and routes on the primary system with its urban extensions and any other routes planned for movement of intercity traffic. This system would be planned and constructed by the States in consultation with planning agencies of affected jurisdictions.

The urban system would support development of street and highway systems for moving traffic within urban areas. It would include extensions of the present secondary system and other major streets and highways for moving traffic within urban areas. Although Federal funds would be channeled through States, the urban system would be planned by the comprehensive transportation planning unit for each urban area. The urban transportation planning unit could set priorities for improvement of urban highway systems in conjunction with improvements for mass transportation and other community development plans. Such coordination would greatly improve urban highway development.

The rural system would aid major traffic routes in rural areas similar to the present secondary system and, with a more uniform classification among the States, it would be planned and constructed by States with involvement of local planning units.

Recommendation No. 6–State Financial Participation in Urban Mass Transportation

The Commission recommends that urban States develop a mass transportation plan and that in addition to providing technical and financial assistance to metropolitan areas with regard to the planning of mass transportation facilities and services, the States furnish financial assistance toward the improvement, acquisition and operation of such facilities.

The critical need for adequate mass transportation facilities in our urban areas has been well documented. The daily struggle of the urbanite and the suburbanite to reach his downtown office is stark evidence of the fact that drastic measures must be taken. Moreover, efforts to improve the lot of the underprivileged inner city residents are inextricably tied to the provision of reasonably priced mass transit. All too often the poor are restricted by the lack of adequate transportation in their quest for gainful employment.

In one of its earliest studies, the Commission pointed to the need for State technical and financial assistance to the metropolitan areas in planning mass transportation facilities and services.[3] The Commission noted in that report that "due to fragmentation of responsibility among various units and the lack of coincidence between service needs and tax jurisdictions, it is frequently impossible for local government to assemble effectively the technical and financial resources required for meeting the service needs of metropolitan area residents."[4] This situation is at least as serious now as it was eight years ago.

The post war decline in the use of mass transit facilities is continuing, as automobile ownership increases. Private operation of bus and rail facilities is becoming less profitable and many communities are faced with the prospect of either losing what mass transit facilities they have or buying out the private operators.

The public cost of acquiring, modernizing, and expanding mass transportation facilities can be counted in the billions of dollars. Among the largest metropolitan areas only five now have rail mass transit facilities (Boston, Chicago, Cleveland, Philadelphia and New York). The San Francisco metropolitan area is now constructing a rapid transit system that will cost well over $1 billion when completed, and the cost of the proposed rapid transit system for the Washington, D.C. metropolitan area is projected at $2½ billion. Other large cities, including Atlanta, Baltimore, Los Angeles, and Seattle are currently considering the construction of rail transit systems.

It is generally agreed that rail rapid transit is suitable only for densely settled metropolitan areas–those with more than a million inhabitants. There are now 30 such areas and more will be added to the list in the coming years. For smaller communities, mass transportation involves extensive use of multi-passenger vehicles–buses, jitneys, etc.–and related facilities. As noted, some have already had to acquire and expand privately operated bus systems. Many need new and additional equipment. Of the 104 urban mass transportation capital grant projects approved for Federal aid as of December 31, 1968, 72 were for the acquisition of buses and related facilities at a cost of about $130 million.*

Although a substantial portion of the funds needed for mass transportation facilities will necessarily come from local sources and, to a lesser extent, the U.S. Department of Transportation,** financial aid will also have to come from the States. Increasing the urban share of State highway-user funds and authorizing local governments to apply some of those funds for coordinated highway and mass transportation projects (as discussed in the two recommendations that follow) will help, but it will be far from sufficient. Five States–Maryland, Massachusetss, New Jersey, New York and Pennsylvania–now recognize the need to assist substantially in financing urban mass transportation facilities. Other urban States, in partnership with their localities and the Federal Government, will have to devote some of their bonding capacity and tax resources to solving the urban transportation crisis.

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*Most of the remaining 32 projects were for rail transit facilities in the few areas now constructing such systems, involving expenditure of some $750 million–an indication of the massive requirements for rail facilities.

**About $1/2 billion in Federal aid had been committed under the Urban Mass Transportation program by the end of 1968 and annual grants have been authorized of $150 million for fiscal 1969 and $175 million for fiscal 1970.

Recommendation No. 7—Allocating State Resources for Highways—the Need for a Better Urban-Rural Mix

The Commission recommends that States so structure their formulas for allocating the proceeds of highway-user taxes among units of local government as to insure a proper balance between urban and rural highway requirements. In order to recognize more adequately urban highway needs and financial ability, the States should allocate their resources to reflect such factors as service level needs, population, accident rates, commuter patterns and fiscal ability.

This recommendation calling for a better balance in meeting urban and rural highway needs reflects the fact that States have made remarkable progress in the last 50 years in overcoming the tremendous rural transport deficit—the need to get the farmers out of the mud. Now that most States have created both a fairly effective farm to market road system and an intercommunity highway linkage, it is necessary to bridge the urban transportation gap.

The case for funneling more State highway-user dollars into urban areas generally—and municipalities in particular—rests in part on the finding that while municipalities account for about half of all vehicle road usage, these jurisdictions receive only about one-third of State highway resources. Moreover, service level needs are greater in urban areas. Due to their more intensive use, urban highways must be of a distinctly higher quality than rural facilities—a factor further complicated by the price differentials of construction, maintenance, labor and access costs. As a result, it costs three to five times as much to construct urban streets as rural highways.

Some States have taken steps in recent years to increase the share of State highway-user revenue going to municipalities and this trend should be continued. Thus, not only will States have to provide additional funds to deal with the urban mass transportation problem (as called for in Recommendation 6), they will also have to share more of their highway-user revenue with their municipalities.

As people continue to concentrate in the areas surrounding central cities, city streets must bear an ever-growing traffic burden. Municipalities are faced with increasing construction and maintenance costs in order to keep this traffic flowing—costs which have not generally been taken into account in formulas under which highway-user funds are allocated. To correct this imbalance between rural and urban highway aid, allocation formulas should reflect actual needs as measured by such factors as service level needs, population, commuter patterns, and accident rates.

Undoubtedly, much of the "skewing" of State aid in favor of rural areas stemmed from a desire to "equalize" rural-urban living standards and resources. Prior to World War II at least, cities were considered the centers of affluence, and most rural areas were characterized by a paucity of taxable resources. State legislative policymakers, therefore, refused to accept usage as the sole criterion for the allocation of State highway aid money.

Thus, this recommendation makes explicit the need for both program and fiscal equalization. Only in this way can the legitimate needs of both the rural and urban interests be reconciled.

Recommendation No. 8—Amendment of State Constitutional and Statutory Anti-Diversion Provisions

The Commission recommends that State constitutional and statutory provisions as to the use of State highway-user revenue be amended to allow localities, particularly in the larger urban areas, flexibility to apply such funds to broad transportation uses in order that they may achieve a balance between highways and other modes of transportation.

Twenty-eight States now have so-called "anti-diversion" provisions in their constitutions requiring that all or part of their highway-user taxes be earmarked for highway purposes only. Most of the remaining States provide for such earmarking by statute. Earmarking provisions may have been appropriate in the early years of development of the nation's highway system when there was an urgent need to facilitate the use of the automobile. Without doubt these provisions contributed to the development of the nation's first-rate highway system.

Transportation needs, however, have changed. The specter of clogged city streets fed by multi-lane highways is commonplace. Goods and people no longer flow easily along the city streets and an urgent need exists to supplement highways with mass transportation facilities in many metropolitan areas. In most of the very largest urban areas—the 30 metropolitan areas with over a million population—construction, expansion and improvement of rail transit is required. In most smaller communities, acquisition or modernization and expansion of bus systems may be the preferred approach. Development of these mass transportation systems of differing types will undoubtedly necessitate a large-scale infusion of funds by all governmental levels—local, State, and Federal.

There is general agreement on the proposition that it is essential for highway and mass transportation facilities in the cities and their environs to be coordinated. Transportation planning must take into account not only the means of getting people into the cities, but the means of moving them once they arrive there. It must also take account of the potential displacement of dwellings and the effects of street and highway work on the physical appearance of the city.

Transportation is no longer simply a matter of highway construction. The Federal Government recognized this when it established the Department of Transportation and more recently with the transfer to it of the Mass Transportation Program from the Department of Housing and Urban Development.* Eight States have taken similar action. All but the least urbanized States must recognize the need for balanced urban transportation. A beginning can be made by repealing antidiversion amendments, thus making possible the deployment of highway-user funds to urban mass transit problems.

The chief argument in favor of earmarking highway funds is that these taxes should be applied to facilities that benefit those who pay the levies—the highway users. Indeed, motor vehicle taxes and user charges are classic examples of the "benefits-derived" theory of taxation. Nonetheless as actually employed, the earmarking of such funds has ignored the interdependencies among various types of transportation. The social costs of traffic congestion and the sheer waste of time involved may best be alleviated by mass transportation—a result that would also benefit those who continue to use their automobiles. Accordingly, this recommendation calls for a recognition of such interdependencies by broadening the purposes to which highway-user funds may be allocated—permitting their use for transportation planning and for mass transit in urban areas, as well as for streets and highways.

Some argue that broadening the uses of highway funds to include mass transit should be weighed against fuller exploitation of user charges. Conceivably, user charges could be devised to adequately reflect all costs—including social—imposed by highway users. The critical point, however, is recognition of these interdependencies. These two approaches need not be considered on an "either-or" basis but rather as complements. While broader use of highway funds seems more practical than a "pricing-out" of congestion costs, a more imaginative application of user charges to reflect all relevant costs may also contribute toward better transportation systems.

General Legislative and Administrative Policy Issues

Recommendation No. 9—Organizational Requisites for an Effective State-Local Fiscal System

In order to create a policy environment conducive to the development of an effective State-local fiscal partnership, the Commission recommends that each State undertake to: (1) codify all State aid plans; (2) review and evaluate periodically all State aid programs in terms of their capacity to meet fiscal, administrative, and program objectives; (3) develop in conjunction with the planning and budget officials an information system with respect to local fiscal needs and resources; and (4) evaluate all Federal aid programs in terms of their compatibility to State aid objectives and their fiscal and administrative impact on State and local programs.

Largely in response to recurring local fiscal crises, the demands of property owners for tax relief and a proliferating variety of Federal financial incentives, States have constructed their aid systems in bits and pieces. This recommendation to systematize State-local fiscal relations and to make organizational provision for such a systematic approach specifically calls for an ongoing concern for the well being of our intergovernmental fiscal system. It vests in the State government a distinct responsibility for marshalling the necessary data and isolating the key issues for legislative and executive resolution.

In some States the Office of Local Affairs appears to stand out as the logical candidate for this task of developing a "systems" approach to State aid to local governments. In other States it may be appropriate to assign this responsibility, or parts of it, to a specially designated unit in the Office of the State Budget Director, the Finance Director, or the State Planning Office. Or, the legislature may prefer to retain this responsibility itself by assigning it to a joint legislative committee. Its location in the State government is, of course, a secondary issue. The critical need is for State policymakers to recognize that the time has come to fix responsibility for assembling the various State and local fiscal pieces and fitting them together.

The urgency of this need is becoming increasingly apparent. State and Federal aid dollars should operate systematically to strengthen local responsibility for public services while at the same time providing for an equitable distribution of public cost burdens and benefits. Identification of and planning for future needs depends upon intelligent forecasting of overall economic and social trends. It is essential that grant programs be responsive to these trends. The State's planning capability will depend in large part on its ability to utilize data for measuring not only program performance at the State level, but also comparative performance levels of individual units of local government. A comprehensive State-local information system stands out as a requisite administrative tool for evaluating the effectiveness of State aid (including Federal funds) to local governments.

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*It should be noted that the principle of a balanced transportation system has been enacted into Federal law on two recent occasions: in the Highway Act of 1962 which called for a continuous comprehensive transportation planning process in the metropolitan areas (23 USCA 134); and in the Intergovernmental Cooperation Act of 1968 which cites as one of the objectives for the sound and orderly development of both urban and rural areas "balanced transportation systems, including highway, air, water, pedestrian, mass transit, and other modes for the movement of people and goods" [P.L. 90-577, Sec. 401(a) (3)]. Yet, the U.S. Code still contains a provision, harking back to 1934, which enunciates in no uncertain terms the principle that highway-user taxes must be applied to highways only [23 USCA 126(a)—the so-called Hayden-Cartwright anti-diversion amendment].

The information system should be designed to provide State policymakers with pertinent data relating to program needs and results, local fiscal capacity and tax effort, fiscal viability of local governments, grant consolidation potential, and other comparable data.

The point must be emphasized that these State functions should encompass the examination of *all* Federal aid programs, those that bypass the States as well as Federal assistance programs that have no direct tie-in with the local government structure. Only by taking this broad approach is it possible to evaluate comprehensively the fiscal, administrative, and program impact of various Federal assistance programs on the State-local structure.

By the same token, State policymakers must evaluate not only the fiscal but also the administrative and program aspects of the State's aid programs to local governments *and* school districts. The massive school aid program must be evaluated not merely in terms of its fiscal objectives–equalization, stimulation, and financial support–but also in terms of educational outcomes. Increasingly, State legislative bodies will be demanding evidence that State aid dollars are improving the quality of educational offerings as well as reducing the pressure on the local property taxpayers. The same necessity exists for highway programs and for the increasing State aids to urban development. All of these must be viewed in both program and fiscal terms.

The State agency or agencies carrying out these functions of central management, especially if "professionalized," could conceivably have a certain negative value–it would be more difficult to ram through mischievous State aid policies. For example, there would be less likelihood that a State would embark on a plan to share its personal income tax with local governments on the basis of the taxpayer's residence. It would be quickly pointed out–with the proper price tags attached–that such a proposal would magnify inter-local fiscal disparities and legislators and others from the poorer jurisdictions would have an opportunity to voice their objections. In other words, the central management functions proposed here would help ensure the viewing of all relevant sides of a State-local fiscal issue prior to final action by the Governor and the legislature.

Recommendation No. 10–Criteria for Assessing Local Government Viability

In order to avoid bolstering ineffective local units of government with State aid and to move toward a more orderly system of local government structure, the Commission recommends that States enact legislation setting forth specific criteria for assessing the political and economic viability of their local governments–special districts and school districts as well as units of general government–such criteria including but not being limited to (a) measures of fiscal capacity to raise revenues adequately and equitably; (b) measures of economic mixture such as minimum or maximum proportions of residential, industrial or other tax base components; (c) measures of minimum population and geographic size sufficient to provide an adequate level of service at reasonable cost; and (d) other appropriate measures designed to reconcile competing needs for political accountability and community cohesiveness on the one hand with those for variety and reasonable balance in economic and social composition on the other.

Critics of State aid policies have frequently claimed that these assistance programs tend to perpetuate local governments that are not capable of providing public services in an efficient manner. The need for developing criteria of local government viability becomes even more apparent considering the urgent demands currently faced by the State sector. Moreover, as the ultimate source of power and authority for local government, States have the responsibility to ensure that the cost and benefits of local government are distributed equitably across the body politic.

Concern with the appearance in recent years of a set of lopsided communities in metropolitan areas displacing economically and socially balanced communities led this Commission in 1967 to recommend that each State establish an agency empowered to force the dissolution of "nonviable" jurisdictions.[5] In making this recommendation a number of factors to be considered in evaluating viability were pointed up:

- Local governments should have broad enough jurisdiction to cope adequately with the forces that create the problems which the citizens expect them to handle;
- Local governments should be able to raise adequate revenues and do it equitably;
- There should be flexibility to adjust governmental boundaries;
- Local government areas should be adequate to permit them to take advantage of the economies of scale; and
- Local governments should be accessible to and controllable by the people.

The specific criteria to be applied will depend upon the particular situation in each State and the kinds of measures that can be developed. The following are offered for consideration.

Community self containment. A local unit of government should possess a reasonable degree of self containment, as indicated by a combination of historical, geographic, economic and sociological characteristics, such that some sense of community already exists and shows promise not only of continuation but hopefully of further development.

Finding a measure to implement this criterion presents difficulties but at least one can be suggested. From the Decennial Population Census it is possible to establish for municipalities a normative relationship between the working population and the residential population in the community. Preliminary investigation of 1960 Census data for major metropolitan areas shows that on the average, about half the resident work force of satellite cities of 50,000 plus travels elsewhere to work, while about half the persons employed in such cities travel in from a residence outside. In localities where such in- and out-commuting makes up the bulk of all employment the community would receive low marks on the "self-containment" criterion.

Community balance. A local unit of government should allow the inclusion of diverse interests within its boundaries so as to achieve a reasonable balance and should give promise of remaining so in the foreseeable future. The distribution of individuals and families by income level provides one basis for judging the balance among interest groups in a local governmental unit. An outstanding characteristic of the urban complex is its agglomeration of political units in which individuals and family units have essentially similar educational, sociological, and economic characteristics–"birds of a feather flocking together." The Commission has described the impact of this breakdown of balance in its reports on *Metropolitan Social and Economic Disparities* and *Metropolitan Fiscal Disparities*. Income distribution data are available from the Decennial Census of Population. Jurisdictions with distributions at wide variance from that found in the county or region as a whole are unlikely to be responsive to the diverse interests in the wider community of which they are a part.

In Number 10 of the *Federalist Papers* James Madison argued in favor of a community that is sufficiently large to enable the inclusion of a wide variety and number of interests. The size of the community is a measure of safety against domination by any particular group. In the large community, majorities can be produced only by compromise and accommodation among a variety of groups. This "Madison thesis" needs to be borne in mind in the assessment of the viability of communities.

Fiscal capacity. Every locality should possess an adequate tax base, thereby reducing and simplifying the task of the State in evening out local fiscal disparities.

Measures of both fiscal adequacy and inadequacy are necessary here because jurisdictions that possess either an abundance or paucity of local tax resources fail to fulfill the spirit of this criterion. Rich industrial or residential enclaves that skim the cream off the local resource base can contribute as much as poorly endowed jurisdictions to the necessity for and complexity of State equalization aid requirements.

States already have or can readily develop property assessment information which would permit judgments to be made on the financial adequacy of local units. For example, assessment records could be analyzed to develop for the State as a whole, or on a regional or county basis, the relationship one might expect to find between residential and commercial and industrial property. Significant deviation from the "norm" would then indicate a fiscally unbalanced community. It might well be argued, for example, that in a "balanced" community the residential component should comprise somewhere between 40 and 60 percent of the total local tax base. Thus, wide deviations from this norm would become a matter of concern. It would reveal, for example, the presence of an industrial enclave or bedroom community.

Performance record. Every locality should be so constituted as to perform public services with reasonable efficiency–that is, be able to take advantage of economies of scale, specialization of labor, and the application of modern technology.

Because of their heavy financial involvement in education some States have shown no hesitancy in pushing localities toward public school systems of sufficient size to promote the use of modern facilities and equipment and specialized instructional and auxiliary personnel. Nationally this has had a dramatic effect, for the last quarter of a century has seen a reduction in the number of independent school districts from over 100,000 to about 22,000. Still there remain a half dozen States with more than 1,000 school districts each and another ten States are divided into 500 to 1,000 school districts each. Some of those 16 States have made great strides during the past five years in consolidating small school districts into viable units. This trend is to be applauded–as is continued State effort along such lines.

For units of general government, this kind of thrust from the State for efficiency has been largely lacking. In both urban and rural settings, there remain incorporated entities–townships and villages–so small and so weakly organized that they do not need the services of even one full-time employee. The ability to employ a minimum number of full-time employees sufficient to provide an adequate level of service is a reasonable viability criterion. Local government employment and payroll data are published by the Bureau of the Census.

Particularly discouraging has been the proliferation of special districts, mainly of the single-function variety, over the past 25 years–from about 8,000 in 1942 to some 21,000 in 1967. Many of these districts were established expressly to evade constitutional and statutory debt or tax limits with little or no public control or political responsiveness. Many perform functions that duplicate activities of general units of government or that could be performed more effectively by municipal or county governments. In an earlier report this Commission took a position favoring general units of government over special districts.[6] We reiterate that stand and again urge the States to take a hard look at their special districts with a view to restraining their formation and continuance.

There is considerable interplay among the listed measures and no single criterion may be adequate to the task of determining viability. There are, in addition, other factors–such as geographic area and population size–that could be developed into viability criteria by a legislature.

Whatever the criteria, it seems evident that distinctions would necessarily need to be drawn on the basis of the type of governmental unit. Criteria applicable to county units are not likely to be suited for application to incorporated units. Cities may need to be distinguished from other incorporated units such as villages and towns. And, as noted, special rules have to be applied to school districts and special districts.

The need for establishing viability criteria for local units of government was effectively articulated by the Ontario Committee on Taxation.

> Local autonomy has ever been a cornerstone of municipal institutions in this province. We consider ourselves second to none in our espousal of this principle which has served so long and so well in promoting democratic values within a framework of decentralization. But if local autonomy is to remain a reality, the institutions it fosters must be worthy of its challenge. Local autonomy, precisely because it stresses the importance of strong municipal institutions, is not a haven for municipalities and school boards so small and weakly organized that they cannot discharge their functions in acceptable fashion. Again local autonomy, which is a bastion of responsive and responsible government, cannot condone the multiplication of *ad hoc* special service authorities removed from the immediate arena of the political process.[7]

This Commission is fully aware of the inherent difficulty of reconciling the competing needs for accountability and community cohesiveness on the one hand and those that call for a jurisdiction large enough to embrace a wide variety of social and economic groupings. The clustering together of millions of persons within a number of our metropolitan regions necessitates rethinking many of our institutional and public administration dogmas. The Commission has attempted to reconcile these competing forces by urging greater attention to the need for community cohesiveness with its recommendation for the creation of neighborhood subunits of government (*Fiscal Balance in the American Federal System*). In the very same report, the Commission noted the imperative need for expanding the local fiscal base with its recommendation for resort to a metropolitan-wide school taxing district when interlocal disparities in school financing reach extreme dimensions.

In summary, the Commission emphasizes that this entire problem of local government viability must be faced and kept continually in mind by Governors and State legislative leaders as new State-local fiscal programs are conceived and implemented. A lack of resolution at the beginning becomes increasingly hard to rectify as the program matures and each passing year "sets the concrete" even harder.

Recommendation No. 11–State Standards for Categorical Grant-in-Aid Programs

The Commission recommends that in enacting or modifying functional grant-in-aid legislation, States include not only fiscal standards such as those establishing accounting, auditing and financial reporting procedures; but also, to the maximum extent practicable, performance standards such as minimum service levels, client eligibility, and where appropriate, guidelines for citizen participation such as the holding of public hearings.

The States were turning over to their local governments almost $20 billion in fiscal 1967 to help provide a variety of services and the total is probably approaching $25 billion now. On the average, this represents over one-third of State spending and in some States, aid to local governments runs to 40 and 50 percent of the State budget. A major thrust of the Commission's recommendations in this and preceding reports is in the direction of still more State financial involvement in local government problems.

The reasons for recommending an enlarged State role go beyond the fact that States have better access to tax resources than do local governments. It is our firm conviction that only through massive State involvement can all citizens in a State, regardless of their geographic location, be provided with the quality of public services to which they are entitled and only by marshalling the regulatory and other police powers of the State can the crisis in the cities be confronted.

We stress the need for both fiscal and program performance standards. Just as the States are required to account to the public as to their stewardship of public funds by setting up accounting, auditing and reporting procedures, so should they require a similar accounting from the local governments to which they entrust State funds. But, just as important, the States need to make sure that funds are being put to the program uses for which they are intended, that the aided services are provided at the intended level of quality, and that acceptable operating procedures are applied.

Establishment of specific performance standards in functional grant-in-aid legislation serves a number of purposes. Performance standards are needed by local program administrators as a basis for establishing procedures to carry out the program in accordance with the intent of State policymakers. By the same token, those charged at the State level with reviewing and evaluating grant programs (as called for in Recommendation No.9) need standards in order to measure results against intended goals.

The specific nature of the standards to be included in grant legislation will, of course, depend upon the program itself. Minimum service level standards in the education area have been well developed–pupil-teacher ratios, teacher certification requirements, length of school year, and the like. For welfare programs, standards are used as to personnel administration on a merit basis, client eligibility standards and client need measures, among others. As States move into new urban development programs, many of which can have an impact on entire neighborhoods, it will be necessary to spell out some of the benchmarks for citizen participation, including the holding of public hearings, before programs are actually initiated or projects undertaken.*

Increasingly, however, the traditional "input" standards for measuring program performance will be supplemented by "output" criteria. In the field of education, State legislators will place more weight on student achievement tests and perhaps less emphasis on pupil-teacher ratio measures. Moreover, in the field of welfare, more attention will be directed to measuring the success of local efforts to help individuals and families regain self-sufficiency.

Federal grant-in-aid programs, most of which channel funds through the States, generally include performance standards to insure that their purposes are carried out in accordance with legislative intent. State standards for related programs should, of course, be compatible with those of the Federal Government.

The growing public support for "revenue sharing" can be traced in no small part to the fact that the Federal Government in particular has tended to err on the side of specificity of standards. There is always the inherent danger then that those who define categorical aid programs will tend to underestimate the ability of local policymakers to discharge their responsibilities efficiently. It must be conceded that virtually every attempt on the part of State legislators to wring the maximum amount of benefit from each State aid dollar represents a diminution of local control over the allocation of resources. Therefore, in charting the policy for categorical aid programs, State legislators must steer a middle course between extreme specificity on the one hand and an extremely permissive policy on the other.

Recommendation No. 12—Conformance of State Aid Programs to Comprehensive and Functional Planning Objectives

In order to maximize the effectiveness of State grant-in-aid programs and to assure that such programs will promote statewide economic, social and urban development objectives, the Commission recommends the adoption of and inclusion in such programs of appropriate requirements for conformance of aided facilities and activities to local, regional, and statewide plans.

Generally, State grant-in-aid legislation should (a) use a common definition of comprehensive plans, incorporating the necessary human resource, economic and physical development components; (b) require that there be local functional plans to which major State aided projects and programs can be related; (c) provide for the proper relationship of functional and comprehensive plans and planning for various geographic areas and specify a review procedure; and (d) provide that required plans use a common data base.

States should make sure that local programs and projects aided by State dollars conform to State and areawide planning objectives. It should be noted that the Federal Government already has planning conformance requirements for highways, urban renewal, open space and recreation land, and hospitals. In addition, the Federal Government requires the review by a metropolitan planning agency of all local applications for Federal assistance for most major public facility grants in metropolitan areas.

Obviously, Federal and State planning requirements should not conflict, and compatible definitions of plans and planning jurisdictions should be used. In this connection, the Commission urged standardization and consolidation of Federal aid planning requirements in its report, *Fiscal Balance in the American Federal System.*

To help assure that State financial assistance to local governments will contribute to statewide and area goals, produce programs and projects which complement one another, further developmental and urbanization goals of the State, and avoid overlap and duplication, a reasonable set of planning and review requirements should be incorporated in State aid legislation. There are very few State initiated planning and coordination provisions presently incorporated in such legislation.

As they enter an era of expanded aid to local governments and assume increasing responsibilities for channeling Federal aid, the States are presented with an unparalleled opportunity to establish systematic procedures for relating programs to one another and to overall State, regional, and metropolitan objectives. This can be done through general legislation tying regional and local planning and coordination into a statewide system. The States, exercising their constitutional responsibility, determine the general outline and many details for the specific structure and direction of urban growth. They must supply the guidance for local, metropolitan, and multi-county planning and development programs. The linkage must be established between relatively detailed local land use and human resource planning efforts on the one hand, and broader regional and national objectives on the other.

For State planning and urbanization policy to become fully effective there also must be a linkage with multi-county and metropolitan area plans and with local plans and development measures having an impact outside the borders of the local government. A review and comment approach to local actions should be authorized and conformance to official plans and planning should be required. With these provisions, State policies can provide the guidance and direction necessary for realization of urban growth objectives.

To establish the necessary relationships, State grant-in-aid legislation should clearly specify the level of comprehensive and functional plans with which conformance will be required. This will serve to avoid gaps, duplication, and overlapping–that is to assure the existence of a hierarchy of comprehensive and functional plans of increasing specificity. Statutory language should require each aided facility or program to conform to the functional plan promulgated by the recipient jurisdictions, or if there is no such plan in existence, to the functional plan promulgated by the next "higher" and larger governmental unit. Thus if a city has no plan and the county in which it is located does, the plan of the county would govern. Such functional plans should be required to conform to the relevant comprehensive plan at the appropriate level which, in turn, should conform to comprehensive plans at the next level.

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*Not all programs, of course, require citizen participation in their implementation. Some State aid merely assists localities to carry out their ministerial duties. However, provision for citizen participation is essential for programs that have a direct impact on all or particular classes of citizens—for example, urban redevelopment; mass transit; location and relocation of highways.

Most States are large enough and contain enough economic, physical, and social diversity within their borders to necessitate some kind of regional planning organization. In some cases this may prove necessary only in metropolitan areas. However, States increasingly are finding it expedient to establish regional organizations for planning and development purposes. When such regional organizations assume responsibility for developing comprehensive plans to which local plans within their borders must conform, it is essential that a clear delineation of district borders be established. Only through this means will it be possible to identify the official comprehensive plan to which conformance is required. This will not only avoid the development of overlapping and conflicting comprehensive planning jurisdictions in the State, it can also eliminate the present confusion in the administration of Federal programs.

At the present time a district with one set of geographical boundaries may have the responsibility for areawide review of grants for Federal aid, another areawide planning agency with different borders may be receiving "Section 701" planning assistance from the Federal Government, and a third areawide planning agency with a still different geographic area may be the areawide planning organization to whose comprehensive plans various public facilities must conform to receive Federal aid. It is up to the States to take the initiative to eliminate this jurisdictional confusion both for their own State and local programs, and for the Federal programs.

Admittedly, requiring local plans to conform to regional, State and Federal planning objectives has a definite "centralist" thrust. To put the issue more bluntly, a price must be paid for more orderly urban development. This price is reflected in the length of time required to secure from officials at higher levels the necessary approval for local plans, the real expense in terms of local personnel effort consumed in developing and clearing their plans, and that real but intangible factor–the diminution of local autonomy. Moreover, the "pioneers" in planning conformance–the Federal policymakers–have thus far clearly demonstrated an inability to avoid conflicting and extremely complex planning conformance requirements.

Thus, as in the case of performance standards for categorical aids, State policymakers will have to steer a middle course between extreme specificity and a "law of the jungle" approach. Hopefully, States may develop planning conformance guides that serve not only their own interests but also become a model for emulation by the Federal Government. This is consonant with the visions held by the founders of the Republic of the States as "political laboratories" for the nation.

Footnotes

[1] U.S. Department of Transportation, *1968 National Highway Needs Survey* (U.S. Government Printing Office, Washington: 1968) p. 46.

[2] *Ibid.*, p. 48.

[3] ACIR, *Intergovernmental Responsibility for Mass Transportation Facilities in Metropolitan Areas* (A-4), April 1961.

[4] *Ibid.*, p. 50.

[5] ACIR, *Fiscal Balance in the American Federal System*, Vol. 2, "Metropolitan Fiscal Disparities" (A-32), October 1967, p. 14.

[6] ACIR, *The Problem of Special Districts in American Government* (A-22), May 1964.

[7] The Ontario Committee on Taxation, Vol. II, *The Local Revenue System*, 1967, p. 550.

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Chapter III

Financing Local Schools— A State Responsibility

> **It is not enough to have the finest school system in the country if the adjoining district has one of the worst. Ultimately the product of the weak district will dilute the prosperity of the more fortunate products of the excellent system. Correcting this kind of damaging inequity requires State action.[1]**

Equality of educational opportunity represents one of the continuing challenges of our society. Although this responsibility rests ultimately with the States, most States have delegated it to local school authorities. The ability of local school boards to rise to the challenge depends largely upon the State-local educational financing arrangement. Without the requisite fiscal environment, the larger public goal is unattainable.

THE EDUCATIONAL OUTLOOK

Pupil Enrollments, Teachers and Costs

School finance until recently represented a crisis brought on by rising enrollment. In the 1955-65 decade, pupil enrollment climbed at the rate of three to four percent year after year (table 4). This stemmed from both the growth in school age population and a marked increase in the percentage enrolled in schools, particularly for the five year-old age group and the 16 and 17 year-olds. In 1947 just over half (53.4 percent) of the five year olds were enrolled in school (including kindergarten); by 1966, this percentage had grown to 72.8 percent. At the other end of the public school age group, 67.6 percent of the 16 and 17 year-olds were enrolled in school in 1947; by 1966 this percentage had grown to 88.5 percent. Thus, the schools succeeded in retaining the older ages and at the same time expanded their programs for the young.[2]

TABLE 4–ENROLLMENT IN PUBLIC ELEMENTARY AND SECONDARY SCHOOLS
1955-56 TO 1966-67 WITH PROJECTIONS FOR 1970 AND 1975
(In thousands)

School year	Number	Percent increase over previous year
1955-56	31,163	
1956-57	32,334	3.8
1957-58	33,529	3.7
1958-59	34,839	3.9
1959-60	36,087	3.6
1960-61	37,260	3.2
1961-62	38,253	2.7
1962-63	39,746	3.9
1963-64(e)	41,025	3.2
1964-65(e)	42,280	3.1
1965-66(e)	43,023	1.8
1966-67(e)	43,955	2.2
1970(e)	45,300	—
1975(e)	44,700	—

(e) – estimated

Source: Adapted from U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics 1967* and *Education in the Seventies.*

Although enrollment will tend upward in the near future, a peak is now in sight. The long-term decline in the U.S. birth rate started to show in school enrollments for the 1963-64 school year. Annual increments since then have tended downward and by the end of this decade school enrollment will have passed its peak—about 45 million students.

On a State-by-State basis the enrollment picture will vary. A few States like California, Florida and Arizona will continue to experience population increases and enrollment growth. Other States can look forward to declines, although individual school districts within a State will find enrollments changing with their economic circumstances and the movement of population.

In response to the rise in enrollment during the 1950's and early 1960's, the number of public school teachers shot upward. The total will push beyond the two million mark by the end of this decade (table 5). Thus, instructional costs which now absorb the bulk—about 56%—of public school spending can be expected to rise.

Recently teacher organizations have demonstrated increased militancy in their salary demands—a situation

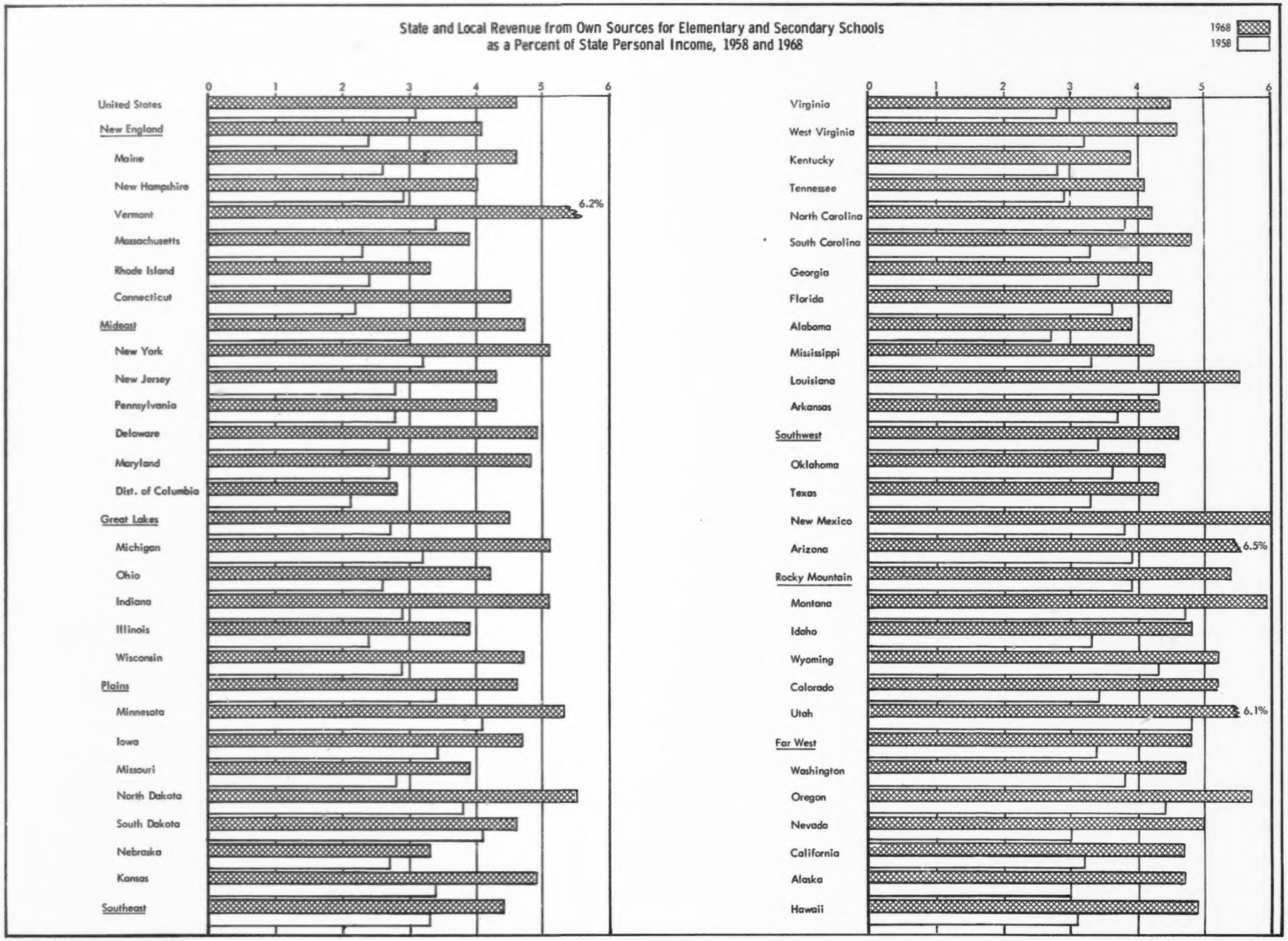
TABLE 5
NUMBER OF TEACHERS IN PUBLIC ELEMENTARY AND SECONDARY SCHOOLS
SELECTED YEARS 1939-40 to 1968
(in thousands)

Year	Kindergarten thru grade 8	Grades 9-12	To[illegible]
1939-40	575	300	875
1949-50	590	325	915
1959-60	834	521	1,355
1966-67	1,017	787	1,804
1967-68	1,039	820	1,859

Source: Adapted from U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics, 1967.*

FIGURE 5

THE REVENUE STATE AND LOCAL GOVERNMENTS RAISE FOR PUBLIC SCHOOLS GROWS FASTER THAN PERSONAL INCOME



State and Local Revenue from Own Sources for Elementary and Secondary Schools as a Percent of State Personal Income, 1958 and 1968

Source: Table A-6.

TABLE 6
GENERAL EXPENDITURE OF STATE AND LOCAL GOVERNMENTS
AND LOCAL SCHOOL EXPENDITURES 1957-1967
(in millions)

Year	State and local general expenditures	Local school[1] expenditures	School as a percent of general expenditures	State education aid	State education aid as percent of general expenditures	State education aid as percent of local school expenditures
1957	$40,375	$11,657	28.9	$ 4,212	10.4	36.1
1958	44,851	13,032	29.1	4,598	10.3	35.3
1959	48,887	14,034	28.7	4,957	10.1	35.3
1960	51,876	15,166	29.2	5,461	10.5	36.0
1961	56,201	16,608	29.6	5,963	10.6	35.9
1962	60,206	17,739	29.5	6,474	10.8	36.5
1963	64,816	18,802	29.0	6,993	10.8	37.2
1964	69,302	20,399	29.4	7,664	11.1	37.6
1965	74,546	21,966	29.5	8,351	11.2	38.0
1966	82,843	25,091	30.3	10,177	12.3	40.6
1967	93,770	28,066	29.9	11,845	12.6	42.2

[1] Differs from data in Table 7 because Census data exclude debt service and certain other charges which are included in the Office of Education tabulation. See note (*) below.

Source: U.S. Bureau of Census, *Governmental Finances*.

that can be traced in part to a large influx of men into the teaching profession. In 1949-50, only one in every five teachers was male; by 1963-64, male teachers constituted slightly more than one-third of the teacher population.

Recent teacher strikes may manifest a natural desire by male teachers for wages commensurate with the costs of raising a family. Twenty years ago the average annual salary of the instructional staff in public schools just about matched average earnings of full-time employees in all industries. In the course of two decades, however, average annual earnings of public school instructional personnel have forged ahead of other employees. The 1966-67 amounts stood at an estimated $7,110 for instructional staff and $6,050 for all full-time employees.

Along with the rise in school enrollments, the cost of auxiliary personnel and other school services has grown. For example, in the 1956-66 decade the average cost of busing pupils to public schools went from $36.51 to $49.30 per pupil. Over this same period, the percentage of total enrollments transported increased from 35 to 40 percent.

Although prospective enrollment declines offer some promise for a leveling off in public school expenditures, the rise in the general price level, a continuing push for higher teacher salaries and the general desire for "quality" education will likely move public school spending to higher levels. New and expanded services, especially for the preschool and kindergarten set stand out as likely developments that will further propel education expenditures upward. To illustrate, the 1968 special session of the Florida legislature mandated 13 consecutive years of instruction, beginning with kindergarten for all children by 1973. Thus, the pressure exerted by education costs on State and local fiscal resources shows no sign of abating.

Current Financial Magnitudes*

Education is one of the nation's growth industries nourishing in turn an increasingly technological society. In relation to gross national product (GNP), the overall measure of goods and services produced, total education expenditures presently account for well over six percent. Two decades earlier, education laid claim to an amount equivalent to only three percent of GNP.

At the State and local level, schools have a claim in general expenditures akin to that of national defense on the Federal budget. Over the past ten years, characterized as they were by significant economic expansion, State and local school revenues from own sources have not only kept up with the advance in personal income—they actually exceeded it by nearly 50 percent for the nation as a whole (figure 5 and table A-6).** For no less than 21 States, even more dramatic increases than the national average were registered. Close to 30 cents of every dollar currently spent by State and local governments goes to local schools, with total school spending in 1967 just over $28 billion*** (table 6). Moreover, during the past 20 years, public school expenditures (including capital outlays) rose from slightly more than 2 percent of GNP in 1949 to about 4 percent in 1967. Spending for current school purposes—that is, excluding capital outlays—also outstripped the rise in GNP; on a per pupil basis, current expenditures rose at approximately the same rate during the last 20 years as GNP (see table 7).

State aid for local schools, including the Federal aid channeled through the State, burst over the $10 billion mark in 1966 and reached almost $12 billion in 1967. As a percent of State and local general expenditures for all purposes, State education aid now exceeds 12 per-

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*In accounting for school finances the researcher has access to two sets of books. One set is maintained by the school systems themselves and summarized in reports of the Office of Education. This set contains the amounts as seen in the eyes of public school officials. The other set is maintained by the collecting and disbursing officials of the units of government and summarized in reports of the Census of Governments. The dollar amounts in each set, for apparently similar items, are not always easily reconciled. School officials tend to work with figures based on school years, governors and legislators and the Bureau of the Census work with figures based on fiscal years. The reader must exercise caution when looking at the tables that follow to consider the perspective within which the data originate.

**Appendix tables appear at end of each chapter.

***Census data; on a somewhat different basis, the National Education Association estimates school spending for the 1968-69 school year at $34.7 billion.

TABLE 7
RELATIONSHIP BETWEEN GROSS NATIONAL PRODUCT AND PUBLIC SCHOOL SPENDING, TOTAL, CURRENT, AND PER PUPIL
1949-1967

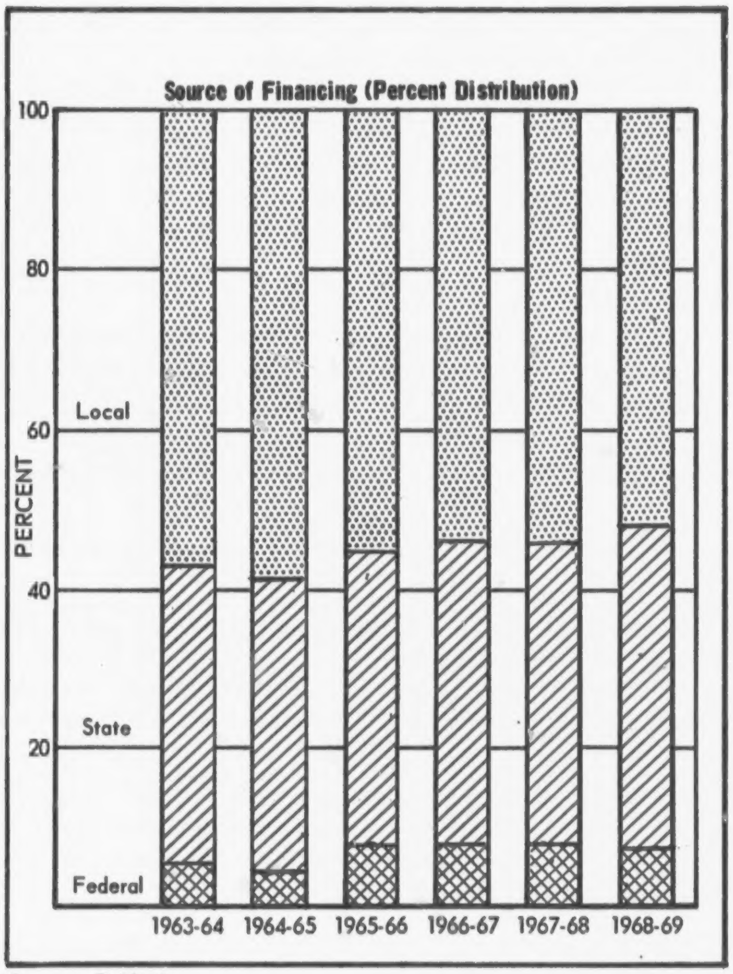
Year[1]	Gross national product (billions)	Expenditure for public elementary and secondary schools					
		Total[1]		Current expenditures		Expenditure (per pupil)	
		Amount (millions)	As a % of GNP	Amount (millions)	As a % of GNP	Total	Current expenditures
1949	$256.5	$ 5,838	2.3	$ 4,687	1.8	$259	$209
1951	328.4	7,344	2.2	5,722	1.7	313	244
1953	364.6	9,092	2.5	6,791	1.9	351	265
1955	398.0	10,955	2.8	8,251	2.1	388	294
1957	441.1	13,569	3.1	10,252	2.3	449	341
1959	483.7	15,613	3.2	12,329	2.5	472	375
1961	520.1	18,373	3.5	14,729	2.8	519	419
1963	590.5	21,325	3.6	17,218	2.9	559	460
1965	684.9	25,802	3.8	20,909	3.1	641	532
1966	747.6	27,946	3.7	22,623	3.0	684	569
1967	789.7	31,511	4.0	25,361	3.2	774	623
% Increase 1949-1967	207.9	439.8	—	441.1	—	198.8	198.1
Growth Rate (Annual)	6.4%	9.8%	...	9.8%	...		6.3%

[1] GNP data for calendar year, school spending data for school term beginning in the fall of the calendar year. 1965, 1966, 1967 school data are preliminary or estimated.
Source: U.S. Office of Education, various reports; U.S. Dept. of Comm. Office of Business Economics, *Survey of Current Business*.

cent; as a percent of local school expenditures, it exceeds 40 percent and gives every sign of heading further upward.

Estimated school expenditures by source of funds also demonstrate clearly the growing significance of Federal and State aid. Federal support took a quantum jump—both in absolute amounts and in percentage terms—with the 1965-66 school year (figure 6). Reflecting in part this fiscal transfusion, State education aid has been growing in dollar amount and has even picked up percentagewise in recent years. Indeed, the local share of of public school spending has trended downward in recent years but still accounts for about 52 percent of all public school support while the amount provided from local sources continues to grow (see tables 8 and A-7).

FIGURE 6
FEDERAL AND STATE PUBLIC SCHOOL AID ON THE RISE



Source: Table 8.

TABLE 8
GOVERNMENTAL SOURCES OF FINANCING FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS,
1963-64 TO 1968-69
(amounts in billions)

Year	Federal		State		Local		Total
	Amt.	Percent	Amt.	Percent	Amt.	Percent	Amt.
1963-64	$1.4	4.6	$8.1	37.3	$12.6	58.1	$22.1
1964-65	1.1	4.3	8.7	37.0	13.8	58.7	23.5
1965-66	2.1	8.0	9.7	36.9	14.5	55.1	26.3
1966-67	2.3	8.1	10.8	37.8	15.4	54.1	28.5
1967-68	2.4	8.1	11.3	37.8	16.2	54.1	29.9
1968-69	2.5	7.3	13.7	40.7	17.5	52.0	33.7

Source: U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics*, 1967, Table 21, and National Education Association, *Estimates of School Statistics 1968-69*, Research Report 1963-R16 (copyright 1968 by the National Education Association; all rights reserved).

School Systems—Giants and Midgets

School districts in most States are independent units of government—Maryland, North Carolina, Virginia, and Hawaii represent organizational exceptions. In these States, school systems are dependencies of general governments. In Hawaii, the general government is the State itself; in Maryland, the counties and Baltimore City; in Virginia and North Carolina, county and city governments. In all, about half the States have one or more school systems dependent upon units of general government but these dependent school systems number only 1,608, almost half of which are in the New England States.

Extreme fragmentation still characterizes school district organization in many States despite consolidations and reorganizations that have drastically reduced the number of separate school systems—from over 100,000 in 1942 to 23,390 in 1967. Nebraska, Illinois, South Dakota, Minnesota, Texas, and California are divided into more than 1,000 independent school districts. Michigan, New York, Missouri and Oklahoma each contain more than 800 independent districts while New Jersey, Pennsylvania, Ohio, Wisconsin, North Dakota, and Montana each contain more than 500 (table A-8).

School district organization in most States practically assures conflicting alliances and loyalties for the citizen. With so many systems, enrollment size varies greatly, with the bulk of pupils enrolled in the relatively few large systems in each State. Out of a total of 23,390 school systems, fewer than 900 (with average enrollment exceeding 6,000 pupils) account for 58 percent of the total pupils enrolled.

The more disconcerting aspect of school district organization from an intergovernmental viewpoint is that, with the exception of a few States, school district boundaries cut across boundaries of other local governments. Thus, as a unit of local government, the school district often possesses geographic autonomy as well as political and fiscal independence, setting off a competition with other governmental units for the same local tax dollars. Calling for greater realization of this competitive interdependence, a Colorado legislator lamented:

> . . . Right now the school teachers and educators of the State are launching a massive political effort to secure greater sources of financing the public schools, and most of them, there are exceptions, but most of them don't have the first idea that what they're doing has a direct and crucial relationship to the financing of local government and state government.[3]

For educational as well as economic reasons, there is persistent concern in most States with school district reorganization. Several States have dangled a financial carrot to induce smaller districts to consolidate. By and large these attempts have met with limited success. Despite financial inducements, the poor small district usually remains a residual unwanted under voluntary reorganization plans. One present viewpoint is that if consolidation is to proceed, it must be under State mandate. John W. Gardner's list of recommendations for achieving national goals in education specifically mentioned that "States should pass laws making such reorganization mandatory under the direction of the State Department of Education."[4]

Operating efficiency stands out as the major argument for continued State efforts on school district reorganization. Experts may disagree on the optimum size of a school system—though 2,000 is frequently mentioned as a minimum requirement. There is general agreement, however, that school districts with larger enrollments can utilize personnel more effectively, provide a sounder basis for school financing, and offer a fuller educational experience.

THE SCHOOLS AND THE PROPERTY TAX

The steady rise in local property taxes for schools has two intergovernmental ramifications. It means more intensive use of a fiscally inferior revenue instrument. It also portends difficult financial problems for other taxing units—particularly large cities—as they seek to obtain additional revenue from the property tax.

Property Tax Deficiencies

Criticism of the property tax as the source of local school support focuses on three deficiencies. First, it is alleged that the tax is a poor measure of either ability to pay or of benefits received. Wealth today is reckoned in terms of the dollars rather than the property individuals command. School support, it is argued, should therefore come in larger amounts from income and sales taxes which are better suited to State than to local government use.

The second criticism of the property tax concerns the inadequacy of its administration in many States. While important gains in the quality of property tax assessments have been made, it is also clear that much more action along the lines outlined in this Commission's 1963 report is urgently needed.[5] Nationwide, the average overall level of realty assessment has risen only from about 29 percent in 1961 to about 31 percent in 1966. In a majority of States, at least half of the local assessing areas covered in the latest Census still had a dispersion index for one-family house assessments of over 20 percent. The Census data also showed once more a marked divergence in most parts of the country in the assessment for various kinds of realty, usually including a much lower assessment-sales ratio for vacant lots than for improved urban property. Thus, there is still a long way to go to make the property tax—now yielding some $31 billion a year—a more equitable revenue instrument for governmental financing.

The third criticism leveled against the property tax is that it results in tax overburdens on some individuals and property owners, particularly the aged and low income groups. Wisconsin and Minnesota have pioneered in the use of an income tax credit-tax rebate, "circuit breaker" technique to protect individuals and families from extreme property tax burdens.[6]

On the other hand, virtues in the property tax are claimed by many. First, it is a highly productive tax and has been a mainstay of local government revenue for generations. Second, it is a highly visible tax and provides a direct linkage for many citizens between services provided by local government on the one hand and the cost of services on the other.

"Municipal Overburden" and other Revenue Constraints

Due to the greater need for police, fire, and other "custodial-type" requirements, municipal pressure on the local property tax is noticeably greater in the larger central cities than in suburban areas. This "municipal overburden" tends to reduce the amount of funds available to central city school districts from taxes on real and personal property. For example, a study of school financing in Pennsylvania revealed that only 30 percent of local funds raised from taxation in Philadelphia and Pittsburgh went to the school districts of these two large cities, whereas 70 percent of the local funds in suburban first class townships went to the public schools of these areas.[7] In New York's six large city school districts, 78 percent of the property tax is used for services other than education compared to 48 percent for all local governments excluding "Bix Six" cities. This is not merely a reflection of New York City's special problems. For the other five large cities, which are not atypical, the figure is 66 percent.[8] Thus, even though taxable values tend to be higher in the large cities, the effective property value per pupil available for school taxes may be smaller than in other jurisdictions.

Discriminatory State constraints. Access to local revenue from property and other taxes is usually more restricted in large city districts than in small ones; in many States, a completely separate body of laws applies solely to the large school districts–frequently the one or two largest in the State. In nine of the 14 largest city school districts in Pennsylvania, for example, restrictions on tax levies are more severe than those applicable to the smaller districts. In some cities, local school boards have virtually no authority to control school revenue, and any increase in property taxes requires approval by the State legislature. In contrast, local school boards in smaller districts within the same States have much greater latitude in raising revenue without action by State legislatures. Further, as States have tended to gloss over the nonschool demands on the local property tax in their school foundation distribution, it is not unusual for large districts to end up with a much smaller share of total revenues from nonlocal sources than is the case for smaller districts. Witness, for example, the plight of St. Louis under Missouri's school aid plan:

> The current Missouri Foundation Program developed in an era when the cities were considered affluent and privileged–when they were expected to pour out resources to help other parts of Missouri. That era is tragically gone. Our cities are now in crying need of help and the cries can be ignored only at peril to the well-being of the entire State.

The average State support per pupil in Missouri (excluding St. Louis) is now estimated at $213.86, whereas the State support per St. Louis pupil is $161.94–or $51.92 below that level. The national average of State support has been 40 cents of the school budget dollar, and it will rise next year. The Missouri average is 33 cents; the Missouri support to St. Louis is 27 cents.[9]

Tax rate limitations. Rate restrictions on school use of the property tax constitute a direct limitation confronting the educators. Generally, current school expenses must be met within a prescribed rate limit. Many States provide that such limits may be exceeded subject to varying majorities of voter approval. Debt issuances to finance capital outlay typically must be within limits established by the law and receive voter approval.[10]

Fractional assessment contraints. In the competitive struggle to capture the property tax dollar school officials have had to overcome indirect as well as direct limitations to the property tax base.[11] One such indirect limitation relates to the effect of the assessment base on school revenues. Obviously, assessments at a fraction of full value necessitate higher rates to produce a given yield. While most State constitutions provide for assessments at full value, this requirement is honored more in the breach than in the observance. Even in those States where an attempt has been made to legislate current assessment practice into basic state law, assessments typically fall below the legal standard simply due to the passage of time. Assessors cannot revalue all property every year. Thus, even though an assessor may appraise property at 25 percent of actual value, rising values mean that within a short time the assessed value will constitute less than 25 percent of full value.

The assessment level is uniquely important in the many States that impose tax rate limits for schools or other purposes. The most obvious illustrations of this are suits instigated by persons seeking greater local spending on schools. In a Kentucky suit of this type, the court mandated conformance to the statutory assessment standard. The rulings in effect, tripled the property tax revenue for schools because property on the average was assessed at about one-third of its value.

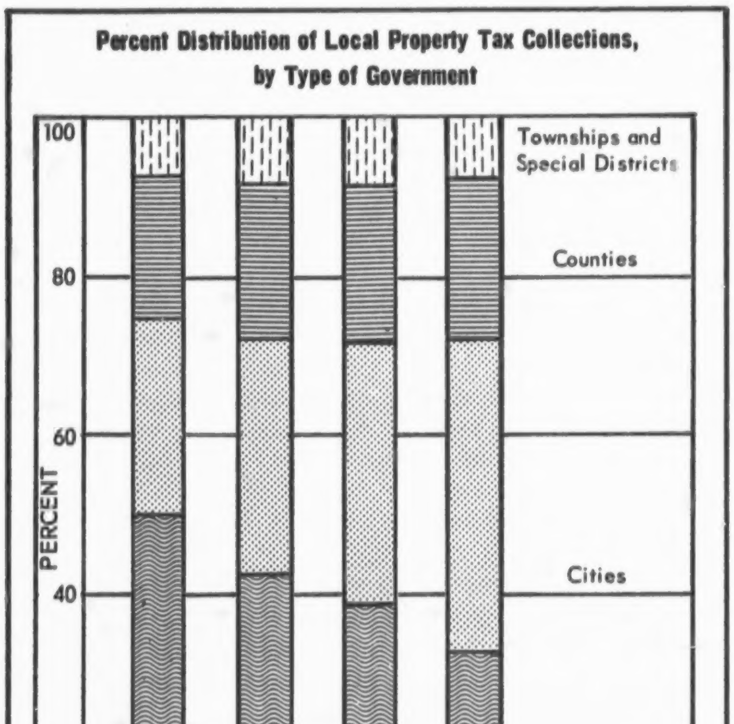
Education: Now the Dominant Property Tax Claimant

Despite the direct and indirect constraints on the use of the property tax in most States, school officials have succeeded in enlarging their claim on this revenue source. While total local property tax revenue was rising from $4.3 billion in 1942 to an estimated $31.5 billion in 1969, the portion devoted to schools rose from about one-third to slightly more than one-half (figure 7). Schools have thus displaced both cities and counties as the major governmental recipient of property tax revenue.

A second and more detailed measure of the increasing percentage of gross property tax levies accounted for by schools is available for selected States. Data in table 9 for Iowa, North Carolina, New York, Ohio, Oregon, and West Virginia show that the property tax is increasingly becoming a tax to support education.

FIGURE 7

SCHOOL SYSTEMS ARE LAYING CLAIM TO AN EVER-INCREASING SHARE OF THE LOCAL PROPERTY TAX



Source: ACIR computations based on data from the Bureau of the Census.

TABLE 9–SCHOOL LEVIES AS A PERCENTAGE OF PROPERTY TAX LEVIES IN SELECTED STATES FOR SELECTED YEARS 1950-1966

Year	Iowa	N.C.	N.Y.	Ohio	Oregon	West Virginia
1950	50.7			54.5	60.4	59.5
1955	53.2			60.8	59.9	62.9
1960	56.6	39.3	44.6	64.4	63.0	68.1
1962				66.4	63.4	69.0
1964	58.2			67.9	63.9	68.6
1966		42.0	46.0		65.7	69.0

Source: *Research Finding for the Governor's Study of the Tax Structure of the State of Iowa*, Des Moines, Sept. 1966 (Research Memorandum III); State of North Carolina, *Statistics of Taxation*, Raleigh, 1960 and 1966; State Comptroller, *Special Report on Municipal Affairs*, Albany, March 27, 1967; *Ohio Tax Study Commission Report*, Columbus, June 1967, p. 105. Oregon State Tax Commission; Biennial Reports of the West Virginia State Tax Commissioner.

INTERGOVERNMENTAL ASPECTS OF PUBLIC EDUCATION: FEDERAL AND STATE PROGRAM RESPONSES

Education and Benefit Spillovers

The little red schoolhouse stands as a symbol of the close identification between local community and support for public education. Indeed, in no other area of public activity are these ties so great. Yet it has long been recognized that educating the country's youth is of more than local interest. Americans are–and always have been–a mobile people. As a result, the educational opportunities provided by one local community subsequently come to affect many different jurisdictions. This factor has become increasingly critical in a technological age.

Because of the growing mobility of the population and the steady rise in educational costs, upper governmental levels have come to play increasingly important roles in financing elementary and secondary education. State governments in particular have a long and well-established responsibility. More recently, the Federal Government–through the Elementary and Secondary Education Act of 1965–assumed part of the financial responsibility for provision of elementary and secondary education albeit on a compensatory basis. Thus, while local initiative and support remain paramount, the financing of public education has become–and will undoubtedly continue to be–intergovernmental in scope (table 10).

TABLE 10–SOURCES OF PUBLIC SCHOOL FINANCING, SELECTED YEARS, 1920-1969

Year	Total revenue receipts (in millions)	Percentage distribution		
		Federal	State	Local
1919-20	$ 970	0.3	16.5	83.2
1929-30	2,289	0.4	16.9	82.7
1939-40	2,261	1.8	30.3	68.0
1949-50	5,437	2.9	39.8	57.3
1959-60	14,747	4.4	39.1	56.5
1965-66	24,900	7.6	38.6	53.8
1966-67est.	27,256	7.9	39.1	53.0
1967-68est.	31,092	8.0	39.3	52.7
1968-69est.	33,692	7.3	40.7	52.0

Source: U.S. Department of Health, Education, and Welfare, Office of Education, *Statistics of State School Systems, 1963-64*; and National Education Association, *Estimates of School Statistics 1968-69*, Research Report 1968-R16 (copyright 1968 by the National Education Association; all rights reserved).

Underpinning this outside financial support is the fact that "benefit spillovers" are inherent in the provision of public education, the single most important function supported by State and local governments. As the term implies, benefit spillovers arise from the interdependence of contemporary society–that is, the quality of education provided in one community ultimately affects residents of other localities. While it is helpful to distinguish between private benefits, which relate to an individual, and public benefits, which accrue to society as a whole, it is necessary to recognize that both types become external–that is, spill over–when they are received by individuals outside the jurisdiction providing the service. Thus benefit spillovers accrue to others than the student, but relate only to those "others" who reside outside the locality providing the public service.

With specific regard to public education, there are three sources of external benefits. Perhaps most basic of all–and one that pervades the entire nation–is that a democratic political system relies on a well-educated public for its continued existence. Moreover, education leads to both greater knowledge and skills for an individual and via migration these become geographically diffused. Approximately 20 percent of our population changes residence each year and while many such moves are accomplished within a particular jurisdiction, an important part undoubtedly takes place across local and State lines. As a result of migration then, the effects of the educated individual are brought to bear on his new associates, co-workers and community in general. Thirdly, there is a close relationship between education and income earned. Such additional income tends to expand the tax base not only of the area of residence but to all governmental units that can establish a claim to this income. By means of their expenditure programs, these governments can then redistribute some of these additional earnings to various parts of the country.

To be sure, education is only one of many State and local functions that involve benefit spillovers. Yet there is general agreement that public education is the prime example of this phenomenon both because of magnitude and geographic scope.

Federal Aid to Elementary and Secondary Education, Title I

The passage of the Elementary and Secondary Education Act of 1965 [ESEA] heralded the opening of a new source of substantial financial support for public schools, particularly those serving urban and rural areas of extreme poverty. Grants to encourage the establishment of vocational education programs started in 1917. The school lunch program began in 1946. The National Defense Education Act was spawned by Sputnik in 1958. Over the years, these and other categorical grant programs gradually raised the Federal share of total public school spending to 4 percent. Passage of ESEA virtually doubled this Federal contribution in one year–1966–but it began to taper off somewhat thereafter.

Title I of the act was designed as the first large scale attack on the educational deprivation of poverty children. It provides financial assistance to local schools in areas having high concentrations of low income families. Projects are planned, administered, and executed by local school systems after State approval. The Federal Government lays down broad guidelines for proper administration of the funds to insure that the money is spent as Congress intended. The U. S. Office of Education is charged with preparing an annual evaluation of the effect of the act.

Federal aid for public schools has always been of the categorical type. The passage of ESEA continued Federal policy in this respect. Nonetheless, Title I represented landmark legislation because of its dollar magnitude and the number of school systems made eligible for Federal funds. The first year impact of this legislation is summarized in the following excerpts from the United States Office of Education's *First Annual Report of Title I.*

> Approximately 92 percent of the Nation's local educational agencies met the criteria for eligibility established in Public Law 89-10. However, of these eligible agencies, approximately 30 percent did not participate in Title I. One hundred and four of them (whose allocations accounted for about 2 percent of the total entitlement) were not in compliance with Title VI of the Civil Rights Act of 1964. A majority of the other 7,341 eligible local districts not participating felt that their allocations were too small to make individual or cooperative projects with other school districts practical. In some cases, the States reported, it was necessary to reject applications from local agencies with small allocations because the proposed projects failed to meet Federal or State criteria for size, scope, and quality.
>
> In all, during the first year of operation, 8.3 million children were served by Title I and some $987.6 million was expended, including about $11 million for handicapped children under Public Law 89-313. Expenditures totaled 84 percent of the allocations.
>
> The average Title I expenditure per pupil was $119, but the expenditure ranged from about $25 to $227. For many States this represented a substantial increase over average current per-pupil expenditures, the national average being about $532 for 1965-66.
>
> Nearly 52 percent of the $987.6 million in Title I funds the first year was spent on instruction; about two-thirds of that amount was spent for language arts and remedial reading, which were identified as the top priority by the majority of local educational agencies.
>
> Some 21 percent of the total was spent on educational equipment, and about 10 percent was spent for construction. Food and health services accounted for 4.5 percent of the total expenditures.

In its second year of operation Title I served approximately 9.2 million school children in 16,400 school districts throughout the States. Spending emphasis shifted away from construction and the purchase of equipment toward instruction-related services including teachers and pupil services.[12]

Before the passage of ESEA, the Office of Education could identify only three States–California, New York, and Massachusetts–with any investment in compensatory education. By the end of 1967, however, 9 States had enacted programs. The 12 States had set aside almost $200 million to carry out essentially the same purpose.[13]

In its evaluation reports of Title I, the Office of Education noted that categorical aid cannot be viewed as a classroom remedy to all the problems of poverty, violence, and delinquency, high infant mortality rates, and other familiar characteristics of the weaknesses of our cities. The clear implication of Title I's impact after two years of operation is that community redevelopment, not simply better schools, is required over the long run.

Impetus for Federal aid for compensatory education came from evidence that showed the average suburban pupil in the 37 largest urban areas was backed by more financial support than the average pupil in the inner city. As this Commission noted in its Fiscal Balance study,

Table 11

TABLE 11–CITY SHARES AS A PERCENT OF STATE TOTALS FOR SELECTED FEDERAL CATEGORICAL AIDS, 1966-67

City	Public school enrollment 1966-67	Title I, ESEA, 5-17 (county) (est. FY 1967)	FY 1967 obligations for:				
			Voc. ed.	NDEA III	ESEA I	ESEA II	ESEA III
Los Angeles	14.59	20.60	14.35	.21	20.03	7.58	5.67
San Francisco	2.49	4.53	3.53	.84	4.38	1.87	3.17
San Diego	2.78	3.09	2.70	2.44	3.03	.82	2.55
Denver	19.38	29.10	12.74	7.81	26.02	17.02	28.65
Atlanta	10.53	6.92	5.88	12.10	5.74	22.84	7.95
Chicago	26.51	50.89	24.24	29.89	53.87	32.99	17.50
New Orleans	13.02	11.65	9.46	12.53	15.01	20.78	23.38
Baltimore	24.31	50.81	7.90	19.62	49.67	10.51	2.65
Boston	8.68	26.10	3.93	6.17	24.63	6.42	0
Detroit	14.79	33.25	25.24	28.47	34.97	14.56	.50
Minneapolis	8.52	12.61	8.63	15.19	11.20	9.33	8.06
St. Louis	13.94	18.90	9.35	3.69	19.44	18.43	21.08
New York	33.31	63.80	10.74	34.30	61.39	29.58	28.18
Buffalo	2.26	4.46	3.18	1.62	4.34	2.56	5.02
Cleveland	8.21	14.31	11.52	4.72	14.70	6.47	5.07
Cincinnati	3.84	8.48	1.46	3.67	8.60	3.09	13.00
Philadelphia	12.65	25.37	10.88	17.73	24.60	8.51	17.28
Pittsburgh	7.58	6.93	22.83	7.04	6.62	1.84	11.31
Memphis	14.74	9.33	0	0	9.25	13.94	1.16
Houston	10.93	5.23	4.04	5.20	5.13	8.24	12.20
Dallas	5.93	3.76	3.31	4.08	3.69	5.42	.83
San Antonio	5.27	4.39	3.77	1.60	4.30	3.29	3.06
Seattle	18.46	15.67	18.99	12.55	14.79	12.09	44.36
Milwaukee	13.34	18.37	10.09	11.92	17.84	10.26	15.70

Source: U.S. Department of Health, Education and Welfare, Office of Education, unpublished tabulation.

growing disparity characterizes public school spending as between central cities and their environs. A Carnegie Corporation study in 1966 pointed out that the nation is spending much more money to educate the children of the well-off than the children of the poor.

Federal aid for compensatory education–$1 billion dollars annually–is not large enough to match the extent of the problem according to the evaluation report of the Office of Education. Large numbers of children and schools in need are still left out. School administrators at both the local and State level face hard choices on where to spend the relatively limited amount of Federal funds for compensatory education and indeed for various other categorical Federal educational aids (table 11).

Federal Aid to Impacted Areas–Public Law 874

With the enactment of Public Law 874 by the 81st Congress the Federal Government made special aid available to local school systems designed in part to compensate for the presence of large scale tax exempt Federal activities. These funds are distributed on the basis of eligibility criteria set by the Federal Government and relate to measures of the Federal presence in a community rather than to the wealth of the school district.

A study prepared for the U.S. Office of Education in May 1965 reported that 14 States* offset part of the Federal funds in calculating State aid. The offsets occur only where State equalization aid is involved and where such aid is determined on the basis of relative assessed value per pupil.

States justify offsetting on the grounds that their equalization aid is designed to compensate for a lack of local revenue sources. State aid calculations take into account only those local revenues raised through local taxation, mostly property taxes. Because of the favored Federal tax position, there is an admitted shortage in the local tax base because of Federally connected pupils. However, some or all of the deficiency in the tax base may be covered by receipts from the Federal Government under P.L. 874. To the extent that this is the case, the Federal payment represents local revenues comparable in all respects to revenues raised by locally imposed taxes. Accordingly, where the State has a foundation program with equalization aid based on assessed values, it is justifiable for the State to take P.L. 874 funds into account, i.e. capitalize the Federal payment to represent assessed value, in determining the amount of equalization aid to give.

The Office of Education study examined 17 districts in California and Virginia that received P.L. 874 funds and found that typically about 30-40% of the actual Federal payments could be justifiably offset.[14] These represent the double payment to the district, where both the State and Federal Government are compensating a school district for the same lack of tax base.

The Development of State Foundation Programs–A Brief Survey

State aid to public schools began with a two-fold purpose: (a) assistance in getting schools started in new settlements, and (b) improving the scope and content of public education. For these purposes flat grants based on enrollment or school census figures served reasonably well. The burden of supporting public schools was bearable even in the poorer communities because local schools did not initially have to compete for funds with a wide array of other local services and school costs were relatively low.

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*Alaska, California, Maine, Nevada, New York, Oregon, Rhode Island, South Dakota, Utah, Vermont, Virginia, Washington, Wisconsin and Wyoming.

About the turn of the century public schools in most population centers acquired their present structure–12 grades and a nine-month school term–and came to represent a greater cost to local taxpayers. As States legislated local programs of this scope, the issue of inequality in local wealth surfaced. Rural communities in particular found it increasingly difficult to impose tax rates stiff enough to meet the State mandated programs. Cities with their concentrations of valuable properties could and did provide high level educational programs with moderate tax effort.

Early on, educational finance theorists confronted the task of devising a plan of joint State-local financing that would minimize differences in the quality of local schools and allocate equitably the burden of taxes required to finance them. In 1924, George D. Strayer and Robert M. Haig provided a plan that gave primary emphasis to equalization as the objective of State aid. Under this approach, State and local tax dollars were to team up and thus provide a foundation program below which no district in the State could fall. The proportion of State aid to local support would depend on the size of the satisfactory minimum offer and the degree of inequality among the school districts. The wider the local tax resource disparities, the greater the amount of State aid required to equalize at a particular foundation level.

The Strayer-Haig approach became the model for numerous State adaptations. Compromises with the strict application of the equalization objective were made in most States to accommodate: (a) the long-standing tradition of flat grants; (b) the reluctance of State officials to increase State taxes to fully finance an equalization plan; and (c) the desire of some localities to finance truly superior public schools. In most States the foundation plan ended up providing the poorest district with a basic educational program at a level well below that which many school districts willingly supported. Wealthy districts were left ample local tax leeway to exceed the minimum foundation plan level without unduly straining local resources. Retention of flat grants as part of most State school financing plans left the wealthiest communities free to forge ahead.

State policymakers confront a troublesome decision in setting the level of the minimum program. Educational dollars are of unequal value from district to district in a State whether it be South Dakota or Illinois. Average salaries in certain school systems attract qualified teachers. Higher than average salaries in others–the central cities or remote rural areas–may not be enough to attract qualified teachers. Thus, a uniform minimum program for the State as a whole runs head on into the problem of the unequal penetration of the school dollar.

Because the foundation approach is based on costs at the time it is established, poor districts in particular suffer when costs rise and fail to be reflected in the State foundation distribution. To keep pace with rising prices, the poor districts must impose higher taxes without the benefit of equalizing State aid. Recent studies indicate that this has been the case both in Nevada[15] and Texas[16] and, it seems safe to say, elsewhere as well.

Perfecting amendments to the basic Strayer-Haig equalization thesis were developed as States enacted their foundation plans. For example, Paul Mort and other practitioners showed that educational costs differ for elementary and secondary pupils and that the unit of need in the foundation plan should be appropriately weighted to reflect these differences. Educational finance theorists admonished the States to recognize that a pupil is not just a pupil. Most States heeded the advice either by weighting pupils for purposes of their foundation distributions or by adding special State aid categories, or both. The physically and mentally handicapped children became the subject of special solicitude. Federal categorical aid for vocational education called State attention to the needs of students pursuing this course of study.

Current Patterns of State Aid

State school aid distributions are most simply categorized by method and purpose. By method, the distribution flows either in the form of *flat grants* (per pupil), or some measure of need or *equalizing* grants (per pupil or classroom) determined for individual districts on the basis of the relative availability of local resources. By purpose, more than 80 percent of State aid is provided without specific expenditure strings; hence, it is in the nature of *functional support*. The remaining 20 percent is restricted–to transportation, textbooks, and the like–and is *categorical aid*.

The pattern of State aid both as to method and purposes has been changing over time (see table 12). The

TABLE 12
ESTIMATED AMOUNT AND PERCENT OF STATE GRANTS DISTRIBUTED
FOR PUBLIC SCHOOL PURPOSES, BY PURPOSE AND METHOD OF DISTRIBUTION
1953-54, 1957-58, 1962-63, 1966-67

Purpose and method of distribution	1953-54	1957-58	1962-63[1]	1966-67
	Amount in Millions			
All purposes	2,980	4,516	6,539	9,645
Flat	1,572	1,892	2,506	2,970
Equalizing	1,408	2,625	4,033	6,675
General purpose	2,407	3,712	5,806	8,174
Flat	1,185	1,306	2,027	1,928
Equalizing	1,222	2,326	3,779	6,246
Special purpose	573	815	733	1,471
Flat	388	576	479	1,042
Equalizing	185	299	254	429
	Percent Distribution			
All purposes	100.0	100.0	100.0	100.0
Flat	52.8	41.9	38.3	30.8
Equalizing	47.2	58.1	61.7	69.2
General purpose	80.8	82.2	88.8	84.7
Flat	39.8	30.7	31.0	20.0
Equalizing	41.0	51.5	57.8	64.7
Special purpose	19.2	18.0	11.2	15.3
Flat	13.0	11.4	7.3	10.8
Equalizing	6.2	6.6	3.9	4.4

[1] Not including Tennessee where about $120 million of State grants were predominantly for general purposes and distributed on an equalizing basis.

Source: U.S. Department of Health, Education and Welfare, Office of Education, *State Programs of Public School Support*.

more significant trends are:

- Major increments in State aid have tended to be of the equalizing, no strings character.
- The trend toward equalizing grants has been running strongly and now about 70 percent of State school aid is distributed on this basis.

The differences from State to State in the method of distributing State aid—flat versus equalizing—reflect major differences in the State-local sharing of financial responsibilities. Delaware, New Mexico, and North Carolina provide flat grants to cover per pupil current expenditures defined by the State regardless of where the pupil resides. Localities have the authority and do supplement the State minimum support level by imposing a local property tax rate for schools. No State aid dollars are devoted to equalizing the burden of the locally obtained supplements. Nonetheless, only thirteen States used the flat grant method to distribute at least 50 percent or more of State aid in 1966-67, including the five that used this method, exclusively or almost exclusively (figure 8 and table A-10).

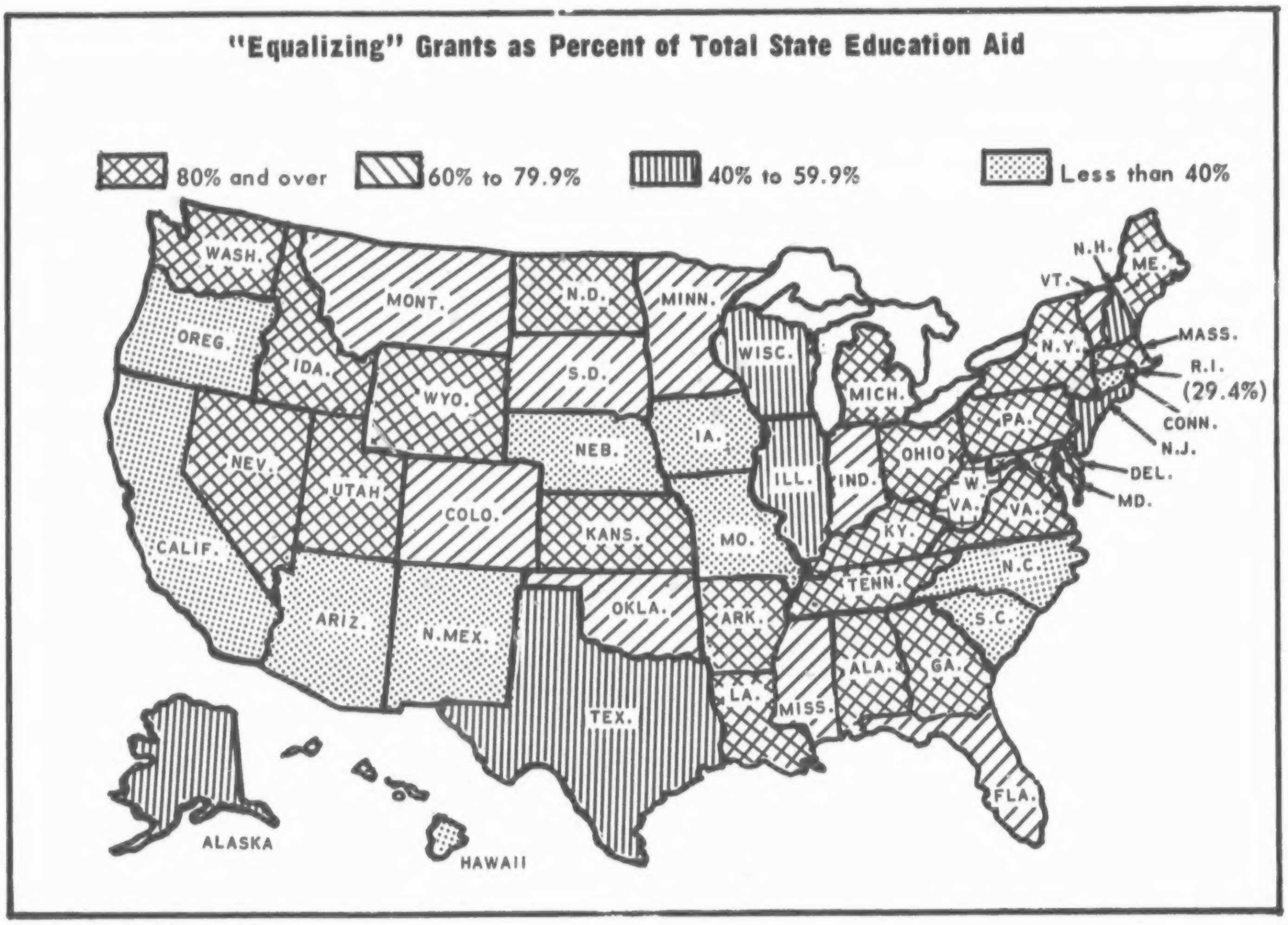
The majority of States clearly favor the equalizing grant method to distribute the bulk of school aid. Every State aid dollar in Rhode Island equalizes. More than $90 of every $100 of State aid equalizes in Georgia, Idaho, Kentucky, Maine, Michigan, Nevada, New York, Ohio, Tennessee, and Utah.

While some States have distributed school aid on an equalizing basis for a long time, it is noteworthy that a substantial number began the practice within the past fifteen years. Quantum jumps in equalizing grants as a percent of total State grants were indicated between 1953-54 and 1957-58 for seven States, between 1957-58 and 1962-63 for four States, and between 1962-63 and 1966-67 for eight States. In all, seventeen States have made the change from flat grants to major emphasis on equalizing grants in the period 1953-54 to 1966-67 (table A-11). Iowa and Nebraska have since climbed on the bandwagon.

On a State by State basis, the classification of State grants as between general and special purposes reveals that only Indiana and South Carolina spell out how a major portion of State school aid must be spent. Virtually 90 percent of Indiana's school aid is budgeted by the State for such specified purposes as instructional salaries, administrative, supervisory, guidance and auxiliary services, transportation, building fund, and debt service. In South Carolina, the State specifies the budget categories on all of its aid to local schools. Wyoming, Idaho, New York, and Ohio, in contrast, delegate to local

FIGURE 8

MOST STATE AID IS "EQUALIZING"


"Equalizing" Grants as Percent of Total State Education Aid
80% and over
60% to 79.9%
40% to 59.9%
Less than 40%
WASH.
OREG.
CALIF.
IDA.
NEV.
MONT.
WYO.
UTAH
ARIZ.
COLO.
N.MEX.
N.D.
S.D.
NEB.
KANS.
OKLA.
TEX.
MINN.
IA.
MO.
ARK.
LA.
WISC.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W.VA.
PA.
N.Y.
VT.
N.H.
ME.
MASS.
R.I.
(29.4%)
CONN.
N.J.
DEL.
MD.
ALASKA
HAWAII

Source: Table A-10.

school boards the budget decisions for more than 99 percent of their State aid.

Techniques of State Aid

Educators generally agree that "to be fair," the allocation of State aid must take account of variations in needs, resources, and effort of local districts. While the basic measure of need continues to be the pupil, or teacher, or instruction unit, States also use "weighted needs" for such pupil characteristics as physical handicap or economic deprivation or, for the teacher, earned degrees or experience. Resources are the taxable wealth in a district whether measured by equalized property value or some proxy compiled for economic indices. Effort is the linkage between resources and needs; it indicates the actual taxing of resources to meet needs. Required effort is the mandated uniform rate times the equalized resource base for foundation program purposes. Exerted effort is the local school rate times the equalized resources and usually reflects the community's interest in meeting its educational aspirations, as well as the required local effort.

Five distinguishable techniques for distributing aid to local schools give varying weight to needs, resources, and effort.

Flat grants. A State flat grant to the local school district partially recognizes need. As additional pupils raise the financial needs of the district, the State responds with a fixed sum based on the teacher salary schedule and pupil unit measures. Delaware, which operates on this system, refines its measure of need further by distinguishing pupils on the basis of elementary and secondary grades and mental and physical handicaps.

Delaware does not require a minimum local effort and therefore ignores any disparity in local resources and tax effort. Although this might be a flaw under certain conditions, it may not be in Delaware's case because of that State's heavy reliance on the personal income tax. Where the flat grant represents a high proportion of total cost–65.8 percent in Delaware in 1966–and where the districts are few in number–51 in Delaware–and not widely disparate in local resources, the flat grant plan may nonetheless result in fairly equalized dollar support for public schools.

Flat grants plus categorical aid. The North Carolina and Connecticut systems illustrate variations of this combination plan. North Carolina pays the total calculated amount for salaries, transportation, and associated school costs of a basic program. Expenditures in excess of the State program are permitted but are a local obligation. In addition, there is State aid for such categories as vocational education, driver training, school lunch, professional improvement, and educational T.V.

The evaluation of the North Carolina system parallels that for Delaware, except that categorical aids tend to reward the wealthy districts for effort they can more easily make. The latter point takes on increased significance in Connecticut for two reasons: the State finances a smaller share of total school spending (31 percent) and therefore equalization becomes more essential; and, the number of categories–20 in all–begins to outrun the administrative capacity of local officials.

State grants requiring matching local funds. This technique stimulates local effort usually to meet a specific need identified as a categorical aid program such as school building construction. A State formula offers matching funds in a fixed ratio–e.g., Delaware 60% State–40% local, Florida 50% State–50% local. There is an incentive to spend local funds, but wealthy districts can respond more easily than poor ones. If there are appreciable differences in resources or efforts among districts, the wealthy soon outstrip the poor districts in construction and replacement of school facilities. Stimulation grants, however, do serve well as a means of getting new activities started.

State equalization grants. The theory enjoying the widest popularity is that State aid to local districts should bear an inverse relationship to the resources of the local district. For example, the ratio of State to local funds might be set at $1 for every $9 for the wealthiest district while for the poorest district it might be $9 of State funds for each $1 of local funds.

This is the underlying rationale for the so-called "foundation-type" State aid that dominates the public school financing picture. Most States place a ceiling on State support, that is, specify an amount beyond which the State no longer matches local funds. The ceiling inhibits the operation of strict equalization unless it is realistically close to the cost of meeting educational needs in all districts.

Rhode Island and Wisconsin come closest to equalization without limit. No ceiling is placed on the amount of State support available on a matching basis. State funds compensate for local resource disparities under a so-called equalized percentage matching grant.

The number of variations on the foundation program theme defies summary description and an evaluation of their impact. The U.S. Office of Education is sponsoring a three-year project to study, among other things, foundation program differences and to assess their effect on educational financing.

Two basic fiscal features of the foundation program are the required local rate and the measure of relative tax paying capacity. In most States the measure of capacity is equalized property value. However in a few States, mostly in the South, a proxy for property value is constructed from various local measures of income and wealth. This method is sometimes considered easier than assembling the necessary assessment-sales ratio data or making the requisite appraisal to equalize property value.

Utah treats the required local contribution in a unique manner. Under the provisions of its foundation program, all school districts are required to levy a property tax of 16 mills on the State equalized fair value of taxable property in the district. This levy is mandatory and local receipts produced by it in excess of $7,250 per distribution unit (27 pupils) plus the amount allowed for pupil transportation expenses are collected as a State tax and used for foundation program support in other districts rather than being retained in the district of origin. No other State comes as close as this in the imposition of a uniform State tax rate for school support. Excess local levies in other States are retained locally to supplement the foundation program.

Michigan, too, treats the tax rate and capacity factors uniquely. Local districts with overall local levies on State equalized values of 125 percent or more above the levies in other districts have their State equalized value for foundation program purposes reduced proportionately.

Flexibility of the foundation program. One reason why educators and legislators have held the foundation program in high favor is the flexibility it permits in pursuing both financial and educational objectives.

Because tax rates and tax capacity are so basic to the foundation concept there is a tendency for the generalist to overlook other elements in the formula that allow legislators to pursue educational and financial objectives simultaneously. If the objective is to provide more State funds for the physically handicapped, such pupils can be given additional weight in the pupil count as is done in Montana. If the objective is to take account of the lower cost of kindergartens and the higher cost of secondary and vocational education, pupils can be weighted by grade as they are in Washington. If the objective is to recognize differences in costs between rural and urban schools, density and sparsity factors can be applied to pupil counts as they are in Idaho. If the objective is to stimulate local districts to exceed the foundation level, a second phase can be added as Utah does in guaranteeing an added amount per distribution unit if districts levy a supplemental rate.

The interrelatedness of the various elements in a foundation program on the issue of equalization has been described as follows:

> If complete equalization (of resources) is the sole objective, a decision on one element–either the foundation level or the uniform local tax rate–determines the other element. Such a decision also determines the other elements of the State school finance plan: (1) the State and local share of the foundation program; (2) the nonproperty and property tax revenue share of the foundation program; (3) the amount of State aid; (4) the State appropriation; (5) the redistribution of resources among the school districts of the State; and (6) the State tax rate required on a State tax base to raise the State share.
>
> Any of the eight elements listed above–the foundation level, the uniform tax rate, and the other six–could be the point at which the decision is made. In fact, each could be the independent decision point which determines the values for the other variables. State finance plans are usually a weighted compromise between the eight elements, and result in choosing as a goal less than complete fiscal equalization.
>
> All of these decisions are constrained by the number of pupils in the State, property valuation in the State, and the range in the distribution of pupils and property valuations among school districts. Further, all are affected by year-to-year changes in these variables–particularly by changes in the valuation per pupil in a district relative to the State average. For complete equalization, the degree of valuation in per pupil valuation among districts alone determines the relationship of the foundation level to the uniform tax rate.[17]

Court Challenges to State Aid Systems–The Implications

In a suit filed against the State of Michigan early in 1968, the Detroit School Board asserted that the system of financing public education in that State denied equal protection of the law to school children in its district. Similar suits were filed in Illinois, California, Texas, and Virginia alleging violation of the 14th Amendment of the U.S. Constitution and, in some instances, identical provisions in State constitutions.*

Legal antecedents of these suits are the school desegregation and reapportionment cases. The mere fact that the suits have been instituted may hasten legislative consideration of revisions in State aid formulas. While it is too early to speculate about the ultimate disposition of the cases, success by the plaintiffs could change intergovernmental financing arrangements significantly.** Larger expenditures in poor districts would appear a more likely result than cutbacks in spending in wealthy districts, given the keen public interest in education.

The rationale for the court tests is that children in poor urban and rural areas are provided vastly inferior education to that provided in more favored districts. The inequality in public education results from a system of financing that makes the accident of wealth or poverty the chief determinant of funds available for public education in any locality.

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*The pertinent 14th Amendment language is as follows: No State shall make or enforce any law which shall abridge the privileges or the immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person without its jurisdiction the equal protection of the laws.

**In November 1968, the Federal District Court in Illinois ruled (*McInnis v. Governor of Illinois*) that public revenue allocation is a basic policy decision more appropriately handled by the legislature. The Court said the complaint as structured did not present a violation of the 14th Amendment, there being no Constitutional requirement that public school expenditures be made only on the basis of public educational needs. The plaintiffs appealed the decision to the Supreme Court, which affirmed the lower court's decision without opinion. It has been noted that the *McInnis* case dealt only with the issue of whether educational need is a "judicially manageable" standard and that a protracted series of legal and legislative actions, the outcome of which is now unclear, can still be expected as other standards are proposed. See David K. Cohen "The Economics of Inequality," Saturday Review, April 19, 1969, p. 65. On May 23, 1969, a 3-judge Federal District Court in Virginia denied the plaintiffs' suit in *Burrus vs. Wilkerson* on grounds similar to those in the *McInnis* case while noting "their beseeming earnest and justified appeal for help."

Data from a recent study of school finances and educational opportunity in Michigan illustrate the factual basis for this contention. School districts categorized at three per pupil expenditure levels were cross-classified according to representative measures of the level and quality of public schools.* The cross-classification proved to be a striking demonstration that less money buys a poorer education. Measure after measure of educational deprivation occurred with greater frequency in the district with lowest per pupil expenditures.

The Michigan study also showed that the single most important factor in determining how much will be spent on any given child is the equalized value per child in the school district in which he resides. "State aid may reduce disparities in expenditure levels, but it does not eliminate them" (table 13).

TABLE 13
OPERATING EXPENDITURES PER PUPIL IN MICHIGAN, BY WEALTH OF THE DISTRICT, AND BY SCHOOL LEVEL 1965-66

State equalized valuation per resident pupil	Operating expenditures	
	Elementary	Secondary
0 – 4,999[a]	$ 374.63[b]	$ 534.87[c]
5,000–9,999	352.20	436.95
10,000–14,999	361.43	448.16
15,000–19,999	436.66	543.54
20,000–29,999	451.90	562.49
30,000 and over	582.57	789.30

[a] Only twelve districts were used in the compilation of per pupil expenditures in this wealth category.

[b] This unexpectedly high per pupil expenditure is the result of the presence of the Inkster City School District in the category. The average per pupil expenditure from the General Fund in Inkster for 1965-66 was $[illegible]75.63. This expenditure was made possible by state and federal aid, both of which were supported by an inte[illegible] local effort as reflected in a very high tax rate on the low SEV/RES. In addition, Inkster accounted for 2/3 of the pupils in this category.

[c] Also includes Inkster. In addition it includes several districts with high per pupil direct grants from the federal government.

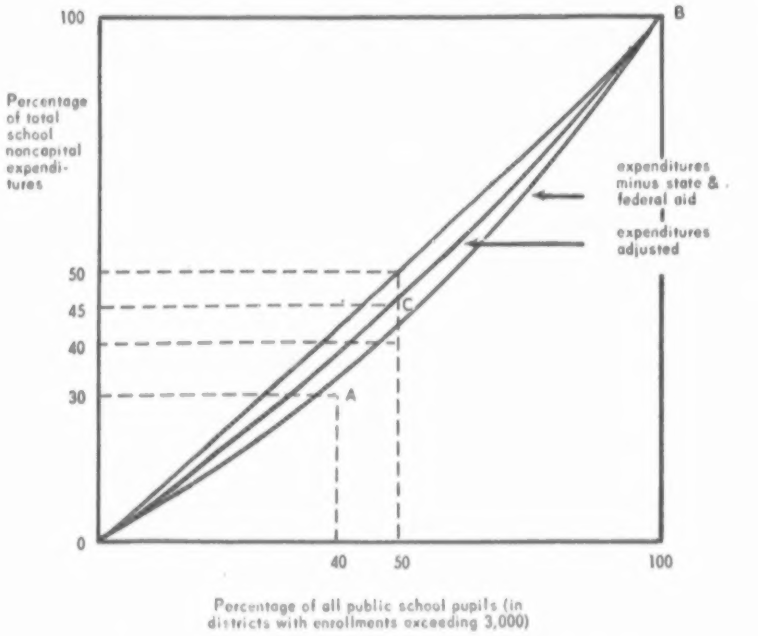
Source: School Finance and Educational Opportunity in Michigan, *Michigan School Finance Study*, a report by J. Alan Thomas, Michigan Department of Education (Lansing, Michigan) 1968, p. 163.

The shortfall of State aid in equalizing expenditures for public school pupils in districts with enrollments exceeding 3,000 can be seen on a graph (figure 9). If State aid were perfectly equalizing, the straight diagonal line would describe the relationship between the percent of total school noncapital expenditures and the percentage of all public school pupils. To the extent that State aid is not entirely equalizing, a gap opens between the diagonal line describing complete equalization and the curve describing expenditures adjusted for State aid.

Similar disparities in other States are pointed up in the report of the Office of Education, entitled *Profiles in School Support* (figure 10 and table A-12). The array of classrooms in several States shows that unit expenditures for those in the 98th percentile are more than three times the amount for those in the 2nd percentile. Eight States had levels at the 98th percentile at least 2.7 times those at the 2nd percentile in 1959-60. The educational landscape, even taking State aid into account, was not that of a high plain but rather one of peaks and valleys.

FIGURE 9

LORENZ CURVES ILLUSTRATING THE EFFECTS OF STATE AID ON SCHOOL EXPENDITURES IN MICHIGAN, 1962



Source: School Finance and Educational Opportunity in Michigan, *Michigan School Finance Study*, a report by J. Alan Thomas, Michigan Department of Education (Lansing, Michigan) 1968, p. 195.

The benefits of local initiative can be anticipated as the principle defense of current State practice. Local control of public schools has a long tradition. Educational theory has consistently upheld local control on the grounds of the substantial public benefit derived from innovations made possible by local autonomy. Those who would overturn the State aid system in its present form can be expected to argue that the State must take steps to lessen the disparities, and that greater equalization does not foreclose—and may, in fact, enhance—opportunities for local innovation.

It should be noted that even State assumption of full financial and operating responsibilities for public schools may not guarantee immunity from a suit alleging violation of the right of equal protection of the laws. In the District of Columbia with its single school system, a Federal court (*Hobson vs. Hansen*) upheld the plaintiff's contention that pupils in different parts of the city were not receiving equal education. This decision puts the onus on school officials to make obvious efforts to assure reasonable equality of educational opportunity.

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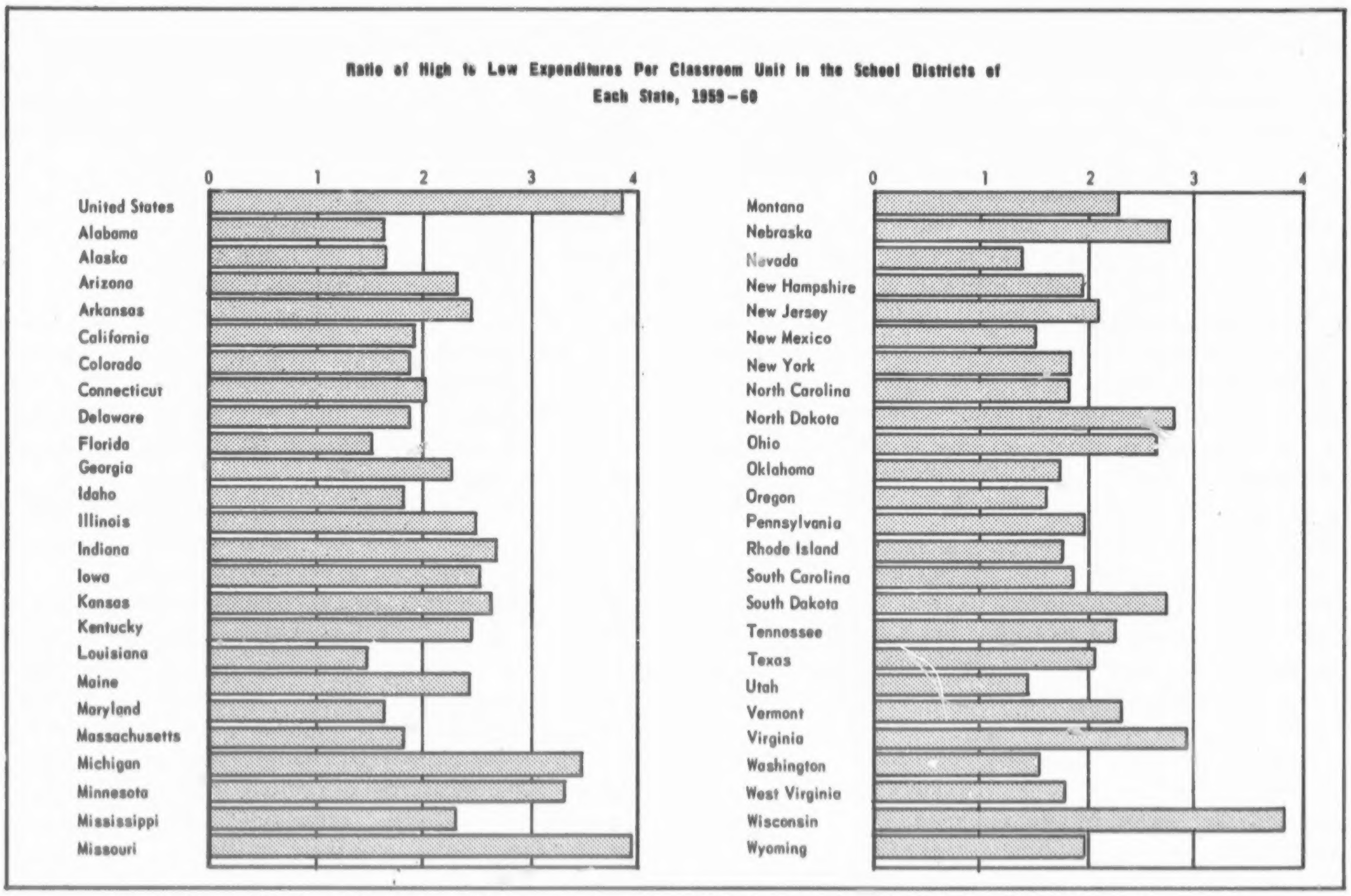
*Representative measures included, for example, special classes and programs, teacher preparation, full-time principals, counseling services, research and testing, closed circuit TV, science laboratories, language laboratories, and paperback book collections.

FIGURE 10

THE PEAKS AND VALLEYS OF EDUCATIONAL EXPENDITURE



Ratio of High to Low Expenditures Per Classroom Unit in the School Districts of Each State, 1959–60

Note: The District of Columbia and Hawaii are not included because each operated as a single school system in 1959-60 with only a single expenditure per classroom unit. They are, however, included in data for the United States.

Source: Table A-12.

LOCAL RESOURCE DISPARITIES AND STATE EQUALIZATION PROGRAMS

The Principle of Equalizing Educational Opportunities

The essence of the equalization approach is to compensate for wide differences among localities in their ability to support elementary and secondary facilities. This is done by providing greater amounts of State aid to the poorer local jurisdictions. As of the school year 1966-67, virtually all of the State governments provided some part of their State aid on the basis of local wealth or taxpaying ability.

It is important to emphasize that both currently and traditionally, the principle of equalization has been used in terms of local fiscal ability–it is designed primarily to compensate for differences in financial resources among localities.

There are, of course, alternative ways of implementing the equalization principle. Some States, such as New York, put virtually all of their State education aid, 99.1 percent, in the context of a formula that reflects relative ability of individual school districts. In certain States, an equalization program is carried out alongside other programs–each of which has different State-local financial provisions. One frequently used technique to implement the principle of equalization is for the State to require each locality to impose a uniform tax levy–equal to the rate imposed by the district of average ability. In localities of below average ability, the uniform levy will yield a shortfall–to be filled in by State aid sufficient to support the State minimum education program. In districts of above-average ability, a surplus results which, with the exception of Utah (where it is turned over to the State for redistribution), is retained for local education purposes.

The level at which the minimum or foundation program is set also can be derived in alternative ways. At the heart of such programs, however, is a guarantee of providing a given quality of educational opportunities–as approximated by per pupil expenditures–with differences in student-teacher ratios, costs of elementary and secondary education facilities and rural-urban price differentials sometimes accounted for. As a result of such equalization formulas, a minimum statewide program for elementary and secondary education is established regardless of the financial ability of any particular locality to finance such a program.

So long as the distribution of local fiscal resources was reasonably uniform, reliance on local initiative for the provision of educational facilities was a workable solution. With the industralization and urbanization of the nation, however, local wealth came to be increasingly concentrated in certain sectors of the individual States. Not infrequently, the location of a railroad or the construction of a major highway were critical elements leading to widely different levels of local fiscal resources. In such situations, two localities in the same general vicinity would have wide differences in their ability to support elementary and secondary education. Hence, the system of relying on local initiative tended to break down since the affluent jurisdictions could provide an educational program with a rather light tax effort while poor localities would be required to undertake a disproportionately heavy tax to finance a comparable educational experience. Rather than have the educational offering determined solely by the accidents of local financial ability and initiative, State governments came to adopt equalization provisions for the distribution of State educational aid.

Equalization of educational opportunities, of course, can have different meanings. At one extreme, for example, it can mean complete uniformity in per pupil expenditures. In practice, however, equalization features have been used to help establish the minimum education program throughout a State; that is, to provide a floor on education programs to be made available to all students regardless of the fiscal ability of their local jurisdiction. Indeed, localities are left completely free to supplement this program to the extent they desire from their own fiscal resources.

Variations in Local Fiscal Ability

Since public education is typically financed by a multiplicity of local jurisdictions within an individual State, it is inevitable that these local units will differ in their financial ability and, as a consequence, their educational offering. Measurement of local fiscal ability has been in terms of two concepts. The first approach includes only the resources which localities have the legal authority to tap while the second relates to an income measure, from which all taxes are ultimately paid.

Since local income data are not generally available, a variant of the first approach to measuring local fiscal ability was followed here. In seven of the ten States selected for analysis, property values are the factor used to distribute State aid. In two additional States–Maryland and Colorado–property values combined with an income measure constitute local fiscal ability. Where local fiscal capacity is measured in terms of property value, assessment ratios constitute an integral part of the ultimate index. Where local assessors determine the property valuations, inequalities in assessment practices may negate the purpose of equalization; indeed in such cases, State aid is an inducement to low valuations. More preferable methods of ascertaining fiscal capacity under the property valuation approach are to have the State either supervise local assessments or for the State to equalize local property valuations.

A somewhat different approach to measuring fiscal ability is followed in Florida where State aid is distributed on the basis of an index of local taxpaying ability. This index is comprised of several specific indicators, all of which are designed to reflect local fiscal capacity. The specific series used in Florida are: sales tax returns, number of gainfully employed workers (excluding government and farm workers), value of farm products, value of railroad and telegraph property and automobile tag registrations.

To derive the Florida index of taxpaying authority, each of the specific series for the local unit–that is, the county–is calculated as a percentage of the Statewide aggregate. The percentages are then weighted and combined to determine the final index. The Florida index, however, illustrates a general difficulty with such measures. The weighting factors, determined to reflect the composition of the State economy, will change as the economy of the State itself changes. Thus, it is necessary to keep such measures as current as possible if local fiscal ability is to be adequately reflected. Yet in Florida, the weights currently assigned to the specific economic indicators were those determined in 1953. As a result, the changes in the Florida economy during the past fifteen years, as they affect local ability to support elementary and secondary education, go unnoticed–when the legislative intent is for the distribution of State aid to compensate for current differences in local fiscal ability.

For each of the ten States–selected to represent the four major geographic regions of the country–variations in local ability to support elementary and secondary education are quite pronounced. Among the cities and towns of Massachusetts, the wealthiest community had no less than 66 times the financial resources for each pupil than did the poorest locality (table 14); in Kentucky, the wealthiest school district possessed as much as nineteen times the local ability available to the poorest; among the school districts of Utah, this figure is eighteen. Even in Maryland where the comparable ratio of wealthiest to poorest county is three–the smallest such ratio for the selected States–the fact remains that if left to their own initiative and resources, the poorest county would have to undertake a tax effort three times that of the wealthiest to support a comparable program.

To be sure, these ratios rely completely on the "extreme values"–the high and low–and may seem to exaggerate the within-State inequality of wealth. Nonethe-

Table 14

TABLE 14—VARIATIONS IN LOCAL ABILITY, PER PUPIL, TO SUPPORT PUBLIC EDUCATION

State	Governmental level analyzed	Year	Low	High	Q^1	Q^2	Q^3	Semi-interquartile range	Ratio of high to low	Valuation measure
Massachusetts	City, Town	1965-66	$ 5,000	$335,938	15,210	$18,182	$24,793	.264	66	Equalized value
Kentucky	School District	1964-65	4,868	94,129	(n.a.)	(n.a.)	(n.a.)	(n.a.)	19	Equalized value
Colorado	County	1963-64	4,339	48,672	7,782	10,910	16,070	.380	11	Assessed value
New York	County	1964-65	11,766	69,238	15,341	18,143	24,682	.257	6	Full value
Indiana	County	1966-67	3,949	15,801	7,161	8,365	9,809	.158	4	Adjusted assessed value
Florida	County	1964-65	.3460	1.2495	.5304	.7297	.9180	.266	4	Index of taxpaying ability[1]
Oregon	County	1962-63	17,583	73,104	22,431	25,425	31,551	.220	4	True cash value
Maryland	County	1964-65	7,742	20,064	10,003	13,999	16,614	.236	3	Total assessed valuation of property at full rate
Utah	School District	1965-66	2,628	48,605	4,124	5,158	8,349	.410	18	Assessed value
N. Dakota	County	1966-67	3,164	19,957	4,806	5,591	5,962	.103	6	Equalized taxable valuation

[1] The index of taxpaying ability per pupil times 10,000. See p. 46.
Source: Various Annual and Special Reports of State Education Departments.
n.a. Data not available.

less, such variations are also revealed when a more refined measure, the semi-interquartile range, is used. This measure, the ratio of one-half the difference between the highest and lowest "25 percent values," expressed as a percentage of the median, avoids the extremes that are included in the full range of local ability. Again, variations among localities to support elementary and secondary education facilities are apparent.

The Equalization Tendency of State Aid

To what extent are such differences in local ability reflected in the formulas governing the distribution of State-aid? As mentioned, nearly all States distribute some portion of their State assistance on the basis of local ability to support elementary and secondary education—with the greater amounts of State aid per pupil going to poorer districts.

There are, however, many points where slippage between the goal of equalization and the actual distribution of State aid may occur. In some States, for example, equalization relates to a relatively small portion of total State funds provided. Thus, while this portion may equalize—in the sense that a given amount of State aid is distributed so as to offset variations in local wealth—the amounts of such equalization aid may be relatively small and thus will have a lesser impact in terms of actual amounts received by localities. To put this point somewhat differently, while a portion of State aid may equalize, it may have only a slight impact on local service levels if the total funds for this purpose are small, while the totality of State education aid may, in fact, work against equalization.

Even where equalization governs the distribution of a large portion of State education assistance, such formulas may be based only in part on local ability, with additional measures also used. These additional factors may, in fact, turn out to work against equalization. The Massachusetts distribution formula reflects these competing objectives. Under this approach, each locality receives an amount equal to the school aid percentage (where local ability is reflected) times the "Reimbursable Expenditures"*—which, with some exceptions, are local expenditures from their own sources. Since it is the wealthy communities that tend to undertake the greater expenditure from their own resources, however, this part of the overall formula tends to offset the equalization effect. Thus, while one part of the formula favors the disadvantaged cities or towns, encompassing as it does the equalization feature, the second part reflects State aid based on the concept of reward for local initiative, which has the effect of favoring the wealthy communities.

A final instance where the equalization objective might be thwarted are "save-harmless clauses" which guarantee that no locality will receive less under the equalization distribution than they had obtained in some previous year under an alternative distribution formula. A similar type provision is to establish a minimum figure of State aid for each locality regardless of what the equalization formula would have yielded. Where such provisions are in effect, the equalization tendency is constrained and the impact of such State aid is therefore reduced.

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*"Reimbursable Expenditures" are defined as total education expenditures minus the following: transportation, school lunch, special aid for handicapped, capital outlays (after deducting receipts for tuition), receipts from the Federal Government, proceeds from invested funds, and gifts applicable to such expenditures.

To determine the degree to which State aid actually accomplishes the equalization objective, Spearman Rank-Order correlation coefficients were calculated between State aid per pupil and local property values or, in the case of Florida, the index of taxpaying ability per pupil. This was done for each of the ten selected States for a recent year. If the equalization objective was perfectly accomplished, then the correlation co-efficient would be -1.00. The results for the ten selected States, however, indicate that there is a wide diversity in the actual equalization that is accomplished (table 15). In States such as New York and Indiana, the equalization tendency is nearly perfect and in several others it is rather strong. Nonetheless, there are a few States–such as Massachusetts, North Dakota, Utah, and Colorado–where the degree of equalization is quite modest. Indeed, in Massachusetts, there is no tendency at all for State aid to reflect the disadvantaged position of the poorer cities and towns.

TABLE 15–EQUALIZATION TENDENCY OF STATE AID FOR EDUCATION, SELECTED STATES

State	Correlation coefficient	Governmental unit analyzed	Year
Colorado	–.213[1]	County	1963-64
Florida	–.633	County	1965-66
Indiana	–.946	County	1966-67
Kentucky	–.811[2]	School Dist.	1964-65
Maryland	–.744[1]	County	1964-65
Massachusetts	+.024	Cities & Towns	1965-66
New York	–.918	County	1964-65
North Dakota	–.344	County	1964-65
Oregon	–.775	County	1962-63
Utah	–.398	School Dist.	1965-66

[1] Actual tax base differs from property value per pupil (see text).

[2] Includes 10 wealthiest and 10 poorest school districts only.

To summarize then, equalization of educational opportunities is a goal to which virtually all State governments devote part of their State education aid. Even where this is so, however, there are instances where equalization is not actually achieved in the actual distribution of the State funds. Moreover, the equalization tendency as measured here has been in the conventional use of that word–to compensate for the meager resources of poor localities from which to provide elementary and secondary facilities. No attempt has been made under most equalization formulas, to determine the differential needs–as well as resources–that various types of students impose on their respective localities.

The Equalization Dollar Gap

The most recent information for judging each State's success in raising support levels for low expenditure school districts is contained in *Profiles in School Support*, a publication of the Office of Education. On the basis of a sample of school systems in each of the 50 States and the District of Columbia, the distribution of school spending for current operations (exclusive of transportation) per standardized classroom was calculated for each State. From these data, the median and other statistical measures were derived. The median in this case indicates the level of support currently provided for half of the classrooms (and presumably half of the pupils) in the State.

By relating the difference in actual spending and the amount required to support presently below median classrooms at the median level (for 1940, 1950, and 1960) to the State aid provided, it is possible to estimate the equalization "dollar gap"–the amount and percentage increase in State aid needed to bring the classrooms to the median expenditure level (table A-13).

A State has one of two options in assuring support at the median level. It can (a) increase its State aid by the necessary amount, or (b) redirect its aid distribution from wealthy to poor districts. Increased State support of about $765 million would have been required in 1960. Because it is likely that the financial magnitudes have increased all along the education front but that percentage relationships, while changed for certain States, have not been drastically altered for the nation as a whole, the required increase in State support may now have reached $1.5 billion more than total State aid of about $12 billion in 1967. The redirection of State aid from wealthy to poor districts would both shear off some of the peaks in school support and fill in some of the valleys.

Major Deficiencies in State Equalization Programs

Equalization weakness. A persistent criticism leveled against State foundation programs is aimed at their weakness in equalizing school spending. Some contend that the American commitment to equality of educational opportunity remains unfulfilled so long as part of the local support for schools comes from unequalized property tax dollars. Thus, the issue involves local property tax leeway permitted under most State programs.

Wealthy districts can supplement foundation program levels while the poor districts have a hard time achieving the basic program. Locally raised property tax dollars, outside the foundation program, are unequalized. To the extent that wealthy districts can impose supplemental property taxes for schools, the principle that a child's education should not depend upon the accident of his geographical residence is subverted.

Blindness to differential costs. State school aid programs usually treat all districts of the same size alike, regardless of their population characteristics. This approach assumes that all children are equal. (States usually make special provisions for the physically or mentally handicapped.) The validity of this assumption is increasingly questioned.

In Texas, research of the Governor's Committee indicates that there is a direct relationship between educational achievements and school district population characteristics.[18] Drop out rates and test results are related to the median educational level, the average family income and the ethnic make-up of the community in which the district is located. A comparison of the two large districts in Bexar County offers an extreme illustration of the problem (table 16).

Table 16

TABLE 16–TALE OF TWO DISTRICTS

District Characteristics	Core City Districts	Suburban District
Enrollment	22,000	23,000
Family Income (Annual)	$ 3,300	$ 7,400
Population Composition		
Spanish Surname	76%	7%
Negro	5%	0%
Anglo	19%	93%
Extra Professional Personnel beyond MFP	–45	91%
Percent of Teachers on Emergency Permits	52%	5%
State Aid Per ADA	$ 217	$ 221
Full Property Value Per ADA	$5,875	$29,650
Performance Measures:		
Dropout Rate (Grades 7-12)	32%	8%
Average Senior Test Score	12.1%	19.5%

Source: Governor's Committee on Public School Education, *The Challenge and the Chance*, (Austin, 1968).

The Suburban District received more State aid because its teachers were better qualified (in terms of degrees and experience) and because the Core City District was unable to fill 45 of its Minimum Foundation Program positions. Yet, the Suburban District has about five times as much taxable wealth per student as the Core City District when measured by full property values.

Data have been developed in recent years to show that the cost of educating some students is substantially above average. The particular groups that have been identified in these studies are the racial and ethnic minorities. Because of a lack of stable home surroundings, low income, and other factors, students from these groups come to school with severe educational handicaps. To overcome these handicaps, schools must exert extra effort if these students are to achieve the skills required in an increasingly complex technological society.

POLICY ALTERNATIVES

Most of the current demands in the educational finance area stem from the demonstrated inability of public schools in some localities and neighborhoods to deliver on the promise of equal educational opportunity. While the failure is not traceable entirely to differences in school spending per pupil there is a strong suspicion that inequality of resources behind each pupil is part of the explanation. If spending and resources were better equalized, perhaps some of the "education gap" would disappear. Public interest, in assuring this outcome, is expressed in the foreward to this chapter. The public interest in providing comparable education comes through even more starkly in the remarks of Edward J. Steimel to the Governmental Research Association:

> ". . . let me ask *you* . . . who have most of the options available to anyone concerning the exact education you want for your children–if you would be willing to send your children to the worst school in your community?
>
> "Children do go to these schools. Are they less important than your children? Their parents have no options."

School aid distributions in virtually every State reflect a twofold need: one, equalization, the other, legislative. The need for equalization rests on grounds of fair treatment for school districts with varying resource capabilities. Legislative need is equally basic. Virtually every State has found it necessary to distribute some funds to every school district regardless of its wealth. But, in every State there is a lingering concern about the terribly unequal resources that exist among school districts and the fact that the States have thus far been unable to achieve a politically acceptable level of interdistrict equalization.

Alternative Proposals

Because of the seeming intractability of resolving the equalization issue new proposals are constantly being advanced. These proposals approach the target of equalizing resources behind each pupil from two directions. One approach is to expand the geographical basis of local property tax support.[19] The ultimate extension of the geographic base would be a statewide uniform property tax for schools. Phase I of Utah's school finance program stands out as an example, albeit limited, of this approach.

A somewhat less drastic alternative would call for a regional property taxing district consisting of a whole county at a minimum or, in the case of a metropolitan area, perhaps several counties. The metropolitan educational equalization authority proposal in the Advisory Commission's State legislative program exemplifies this latter approach. Local property tax resources in a metropolitan area would be subject to a uniform areawide tax for purposes of creating a fund to be redistributed within the area on the basis of need.

The formation of single countywide school districts–as in Maryland and Nevada–is often advanced as a solution to resource disparities among school districts. County areas may have access to nonproperty taxes–personal income tax supplements in Maryland counties, a State mandated sales tax supplement in Nevada–giving the schools more direct access to local non-property tax resources.

This solution usually raises a chorus of opposition on several grounds. A district with an enrollment of tens of thousands of pupils with the prospect of further growth in enrollment, in the judgment of many, would be too large. A single county board would be insensitive to the varied expectations of its many communities. Thus, citizens accustomed to their separate school systems tend to regard a single countywide district as politically unacceptable. Proposals for a countywide tax levy for schools to insure additional financial support for districts with less wealth run afoul of the pocket-book issue. On educational grounds it is argued that a countywide school levy would enhance the prospects of consolidations to improve educational offerings. Wealthier districts exhibit an understandable reluctance to relinquish control over their local tax resources.

Interdistrict equalization can also be achieved by school district consolidation. The intent of this approach is to organize school districts in a fashion that will make them resemble proportionate parts of the State in terms of pupils and resources. This reduces the need for equalization because larger districts tend to be more comparable in terms of both needs and resources.

Consolidation can be accomplished under State mandate or by provision of State financial incentives. Major shortcomings have been indicated in the financial incentive approach. It is expensive to implement and the final outcome has frequently produced consolidation that might have occurred in any case. The districts that remain, after expected consolidations have occurred, tend to be poor and unwanted by other districts as consolidation partners.

The ultimate in school district consolidation is the State takeover of functional and financial responsibility for schools as in Hawaii. Because there are no local levies for schools in that State there is no necessity for interdistrict equalization. On the mainland, efforts to emulate the Hawaiian experience have heretofore never seemed worth pursuing because of the strong tradition and tie-in between local financing and local control.

The more modest intent of having the State assume substantially all financial responsibility for schools while retaining appropriate local policymaking authority is thus designed to achieve that longstanding goal of educators—equalization of educational opportunities—while taking full cognizance of the strong tradition of local identification with local schools. At the 1968 meeting of the Education Commission of the States, Dr. James B. Conant suggested that serious reconsideration be given to the assumption that "local control of schools was a necessary consequence of local financing of the schools and vice versa." He went on to say:

> ". . . I think it may well be that you can have local control of all the vital aspects of the public schools and still have the financing come at the State level through State taxes and not through the local property tax.
>
> "The State money, of course, would be . . . distributed on a per student basis, daily attendance, what-have-you, equally through all the districts of the State. . ."

From then on it would not matter where you lived; you would be getting the same educational service. Dr. Conant then asked, ". . .who can say that, in most States of the Union. . . ?"

James E. Allen, Jr., now U.S. Commissioner of Education, has further explored this approach. Dr. Allen expressed a belief that local school financing now hinders achievement of several important educational objectives including efficient and economic organization of the school system to deal with racial and social imbalances, adequate-sized high schools, orderly collective bargaining, and reasonably equitable provision of educational programs generally.

Local control in school districts lacking enrollment, area and resources in Dr. Allen's view becomes "control of unduly limited opportunities and restricted choices." In the truest sense, local control relates to the quality of education provided for the children of a locality and involves the selection and deployment of the staff and the determination of the program required to meet local educational needs. Shifting the financing responsibility to the State could enhance local control of this character in Dr. Allen's opinion.

To minimize the danger of undue State control, Dr. Allen suggested that safeguards for the preservation and encouragement of local innovation and supplementation be built into State statutes. He stressed the need for the provision of accurate measures of educational need "so that State financing would recognize special situations such as disproportionately large numbers of disadvantaged children, etc."

Fiscal feasibility stands out as the essential precondition to serious State consideration of these suggestions. The Commission's *Fiscal Balance* report provides relevant data for 1966 on the question of fiscal feasibility (table 17). More intensive use of personal income and sales taxes is probable not possible in many States except by relieving a substantial portion of the property tax—specifically the amount for schools in this case.

Assume that a State could have imposed personal income and sales taxes at a level comparable to the average use made in the top ten States using each of these taxes. Twenty-two States could have substituted this yield for school property taxes and ended up even or with a net addition to State general funds. One or two other States might have been added to the list if it were possible to isolate local school support from property taxes from other sources of local support, such as charges for various school services.

Considering the trade-off of school property tax relief for higher personal income and sales taxes, State assumption of substantially all elementary and secondary education costs is not beyond the realm of accomplishment in a substantial number of States—particularly when viewed as a long-range objective. Admittedly, it would be most difficult to achieve in the big States such as New York and California where per pupil expenditures as well as tax burdens are high.

TABLE 17–FISCAL DIMENSIONS OF STATE ASSUMPTION OF PUBLIC SCHOOL COSTS, 1966
(Dollar amounts in millions)

State	% State financed (own sources)	State funds required to replace local funds		Unutilized State personal income and sales tax potential	Overage (+) or shortfall in replacing local funds
		Amount	As % of State-local property tax		
United States	40.4	$14,276	57.9	$ 512	$–2,031
Alabama	73.6	74	63.8	75	+1
Alaska	66.9	11	58.8	18	+7
Arizona	44.0	115	51.5	42	–73
Arkansas	51.4	70	73.2	64	–6
California	34.6	1,928	51.3	1,163	–765
Colorado	27.0	220	71.2	72	–148
Connecticut	31.3	251	54.0	349	+98
Delaware	65.8	30	90.6	37	+7
Florida	52.2	294	50.3	414	+120
Georgia	65.5	136	49.5	161	+25
Hawaii	100.0	–	–	–	–
Idaho	44.9	42	53.3	26	–16
Illinois	22.9	994	61.7	1,013	+19
Indiana	34.6	444	64.6	371	–73
Iowa	17.8	306	68.4	168	–138
Kansas	38.4	155	46.5	109	–46
Kentucky	59.1	98	59.5	88	–10
Louisiana	70.3	106	55.6	163	+57
Maine	34.9	62	50.6	59	–3
Maryland	33.0	310	70.8	245	–65
Massachusetts	13.3	503	49.3	458	–45
Michigan	44.0	646	57.1	554	–92
Minnesota	40.8	297	50.2	254	–43
Mississippi	66.4	54	46.1	14	–40
Missouri	36.3	304	69.8	239	–65
Montana	30.7	61	53.5	65	+4
Nebraska	5.4	153	59.1	191	+38
Nevada	42.6	41	65.7	49	+8
New Hampshire	9.8	60	58.0	84	+24
New Jersey	15.7	710	55.3	872	+162
New Mexico	73.5	37	60.0	15	–22
New York	54.3	1,322	43.4	454	–878
North Carolina	76.3	106	39.2	143	+37
North Dakota	26.7	57	67.6	41	–16
Ohio	20.6	949	73.2	997	+48
Oklahoma	46.3	134	70.1	169	+35
Oregon	31.0	204	73.6	121	–83
Pennsylvania	43.2	840	82.6	793	–47
Rhode Island	33.9	65	56.6	81	+16
South Carolina	61.8	80	78.1	71	–9
South Dakota	19.9	66	63.1	48	–18
Tennessee	52.8	175	78.8	176	+1
Texas	49.4	574	53.4	987	+413
Utah	52.9	76	64.5	10	–66
Vermont	35.7	25	53.1	25	–
Virginia	33.5	325	95.5	346	+21
Washington	57.4	168	54.0	138	–30
West Virginia	55.6	71	72.4	102	+31
Wisconsin	22.8	455	71.5	152	–303
Wyoming	40.5	32	57.2	19	–13

Source: ACIR Staff estimates, based on *Fiscal Balance* Study, Tables A-9, D-1.

Footnotes

[1] Sanford, Terry. *But What About the People?* (New York: Harper and Row, 1966), p. 157.

[2] U.S. Department of Health, Education and Welfare, Office of Education, *Digest of Educational Statistics*, 1967 (Washington: U.S. Government Printing Office, 1968), Table 4.

[3] "The Dollar Crisis," *Colorado Municipalities*, August 1968, p. 208.

[4] Gardner, John W. "National Goals in Education," *Goals For Americans* (New York: American Assembly, Columbia University, 1960), p. 95.

[5] Advisory Commission on Intergovernmental Relations, *The Role of the States in Strengthening the Property Tax*, 2 Vols., A-17, Washington, D.C., June 1963.

[6] Advisory Commission on Intergovernmental Relations, *Fiscal Balance in the American Federal System*, Vol. 1, A-31, Washington, D.C., October 1967.

[7] Fels Institute, *Special Education and Fiscal Requirements of Urban School Districts in Pennsylvania*. (Philadelphia: University of Pennsylvania, 1964), p. 22.

[8] Contrast between large city and other school systems in New York are highlighted in Conference of Large City Boards of Education of New York State, *Program 1969*, Albany, October 1968.

[9] Saint Louis Public Schools, *A Tale of Two Cities* (St. Louis: 1968), p. 60.

[10] Advisory Commission on Intergovernmental Relations, *State and Local Finances, Significant Features 1966 to 1969* (Washington, D.C., U.S. Government Printing Office, November 1968) Tables 64 and 65.

[11] See Rammlein, Madaline Kinter. *Tax Limitation Laws*, (Washington: Committee on Educational Finance, National Education Association, 1965). See also, *ibid.*, Table 63.

[12] U.S. Office of Education, *Title I/Year II*, (Washington: U.S. Department of Health, Education and Welfare, n.d.), p. 1.

[13] *Ibid.*, Appendix B, pp. 119-123.

[14] U.S. Congress. Senate Committee on Labor and Public Welfare, *Impacted Areas Legislation; Report and Recommendations*, prepared by Office of Education, Department of Health, Education and Welfare, (Washington: U.S. Government Printing Office, 1965).

[15] Nevada, Legislative Commission. *State Financial Support for Public Schools*, Bulletin No. 69, Legislative Counsel Bureau, January, 1967.

[16] Texas. Governor's Committee on Public School Education, *The Challenge and the Chance*, (Austin, 1968).

[17] McLoone, Eugene. "Decision Points in State Grants to Local Schools," Report to the Education Commission of the States, July, 1967.

[18] Texas. Governor's Committee on Public School Education, *op cit.*

[19] Ohio, Legislative Service Commission. *The Ohio School Foundation Program*, Report No. 94 (Columbus, January 1969), pp. 46-51.

[20] James E. Allen, Jr., "Educational Priorities and the Handicap of Local Financing," Address Before the School Superintendents Work Conference, Teacher's College, Columbia University, July 11, 1968. Dr. Allen was New York State Commissioner of Education at that time.

TABLE A-6–ESTIMATED STATE AND LOCAL REVENUE RECEIPTS FROM OWN SOURCES FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS AS A PERCENT OF STATE PERSONAL INCOME, 1958 AND 1968

State and region	1967-68	1957-58	Percent increase
United States	4.6	3.1	48.4
New England	4.1	2.4	70.8
Maine	4.6	2.6	76.9
New Hampshire	4.0	2.9	37.9
Vermont	6.2	3.4	82.4
Massachusetts	3.9	2.3	69.6
Rhode Island	3.2	2.4	33.3
Connecticut	4.5	2.2	104.5
Mideast	4.7	3.0	56.7
New York	5.1	3.2	59.4
New Jersey	4.3	2.8	53.6
Pennsylvania	4.3	2.8	53.6
Delaware	4.9	2.7	81.5
Maryland	4.8	2.7	77.8
Dist. of Columbia	2.8	2.1	33.3
Great Lakes	4.5	2.7	66.7
Michigan	5.1	3.2	59.4
Ohio	4.2	2.6	61.5
Indiana	5.1	2.9	75.9
Illinois	3.9	2.4	62.5
Wisconsin	4.7	2.9	62.1
Plains	4.6	3.4	35.3
Minnesota	5.3	4.1	29.3
Iowa	4.7	3.4	38.2
Missouri	3.9	2.8	39.3
North Dakota	5.5	3.8	44.7
South Dakota	4.6	4.1	12.2
Nebraska	3.3	2.7	22.2
Kansas	4.9	3.4	44.1
Southeast	4.4	3.3	33.3
Virginia	4.5	2.8	60.7
West Virginia	4.6	3.2	43.8
Kentucky	3.9	2.8	39.3
Tennessee	4.1	2.9	41.4
North Carolina	4.2	3.8	10.5
South Carolina	4.8	3.3	45.5
Georgia	4.2	3.4	23.5
Florida	4.5	3.6	25.0
Alabama	3.9	2.7	44.4
Mississippi	4.2	3.3	27.3
Louisiana	5.5	4.3	27.9
Arkansas	4.3	3.7	16.2
Southwest	4.6	3.4	35.3
Oklahoma	4.4	3.6	22.2
Texas	4.3	3.3	30.3
New Mexico	6.0	3.8	57.9
Arizona	6.5	3.9	66.7
Rocky Mountain	5.4	3.9	38.5
Montana	5.9	4.7	25.5
Idaho	4.8	3.3	45.5
Wyoming	5.2	4.3	20.9
Colorado	5.2	3.4	52.9
Utah	6.1	4.8	27.1
Far West[1]	4.8	3.4	41.2
Washington	4.7	3.8	23.7
Oregon	5.7	4.4	29.5
Nevada	5.0	3.0	66.7
California	4.7	3.2	46.9
Alaska	4.7	3.0	56.7
Hawaii	4.9	3.1[2]	58.1

[1] Excluding Alaska and Hawaii.

[2] Based on 1958-59 receipts, 1957-58 data not available.

Source: National Education Association, *Estimates of School Statistics, 1958-59* and *1968-69* (copyright 1959 and 1968 by the National Education Association; all rights reserved); and U.S. Department of Commerce, Office of Business Economics, *Survey or Current Business, August 1968.*

TABLE A-7–ESTIMATED REVENUE RECEIPTS FOR ELEMENTARY AND SECONDARY SCHOOLS, 1968–1969

State and region	Revenue receipts by source (in thousands)				Percent of revenue receipts by source[a]				
	Federal[b]	State	Local and other[c]	Total	Total			Excluding Federal	
					Federal[b]	State	Local	State	Local
50 States and D.C.	$2,453,211	$13,727,557	$17,544,685	$33,725,453	7.3%	40.7%	52.0%	43.9%	56.1%
New England	111,391	498,576	1,272,825	1,882,792	5.9	26.5	67.6	28.1	71.9
Connecticut	25,000	178,000	365,000	568,000	4.4	31.3	64.3	32.8	67.2
Maine	9,944	47,930	80,057	137,931	7.2	34.7	58.0	37.5	62.5
Massachusetts	60,000	195,000	616,000	871,000	6.9	22.4	70.7	24.0	76.0
New Hampshire	4,770	8,780[d]	83,342	96,892	4.9	9.1[d]	86.0	9.8	90.2
Rhode Island	8,158	43,866	72,647	124,671	6.5	35.2	58.3	37.6	62.4
Vermont	3,519	25,000	55,779	84,298	4.2	29.7	66.2	30.9	69.1
Mideast	462,422	3,577,651	4,391,612	8,431,685	5.5	42.4	52.1	44.9	55.1
Delaware	8,000	78,500	21,500	108,000	7.4	72.7	19.9	78.2	21.8
Maryland	52,540	291,295	437,724	781,559	6.7	37.3	56.0	39.9	60.1
New Jersey	60,000	359,000	886,000	1,305,000	4.6	27.5	67.9	28.8	71.2
New York	176,000	1,993,000	1,997,000	4,166,000	4.2	47.8	47.9	49.9	50.1
Pennsylvania	103,563	855,856	933,264	1,892,683	5.5	45.2	49.3	47.8	52.2
Dist. of Columbia[*]	62,319[e]		116,124	178,443	34.9[e]	. . .	65.1		100.0
Southeast	718,690	3,272,790	1,855,114	5,846,594	12.3	56.0	31.7	63.4	36.6
Alabama	58,000	219,000[f]	88,000	365,000	15.9	60.0[f]	24.1	71.3	28.7
Arkansas	38,000	105,210	82,000	225,210	16.9	46.7	36.4	56.1	43.9
Florida[g]	101,279	563,275	332,436	996,990	10.2	56.5	33.3	62.9	37.1
Georgia	64,931	372,307[h]	151,427	588,665	11.0	63.2[h]	25.7	71.1	28.9
Kentucky	65,000	211,000	135,000	411,000	15.8	51.3	32.8	61.0	39.0
Louisiana	61,000	373,275	160,000	594,275	10.3	62.8	26.9	70.0	30.0
Mississippi	58,980	156,923	79,651	295,554	20.0	53.1	26.9	66.2	33.8
North Carolina	83,000	434,000	128,000	645,000	12.9	67.3	19.8	77.2	22.8
South Carolina	41,000	215,000	82,000	338,000	12.1	63.6	24.3	72.4	27.6
Tennessee	55,000	224,800	182,000	461,800	11.9	48.7	39.4	55.3	44.7
Virginia	65,000	285,000	350,000	700,000	9.3	40.7	50.0	44.9	55.1
West Virginia	27,500	113,000	84,600	225,100	12.2	50.2	37.6	57.1	42.9
Great Lakes	324,443	2,247,145	4,204,495	6,776,083	4.8	33.2	62.0	34.8	65.2
Illinois	95,406	486,329	1,241,093	1,822,828	5.2	26.7	68.1	28.1	71.9
Indiana	44,000	309,000	555,000	908,000	4.8	34.0	61.1	35.8	64.2
Michigan	67,000	752,464	877,913	1,697,377	3.9	44.3	51.7	46.1	53.9
Ohio	84,400	510,000	1,025,000	1,619,400	5.2	31.5	63.3	33.2	66.8
Wisconsin	33,637	189,352	505,489	728,478	4.6	26.0	69.4	27.2	72.8
Plains	174,503	860,501	1,559,616	2,594,620	6.7	33.2	60.1	35.6	64.4
Iowa[i]	20,300	156,000	302,700	479,000	4.2	32.6	63.2	34.0	65.6
Kansas	31,928	118,758	256,295	406,981	7.8	29.2	63.0	31.7	68.3
Minnesota	45,000	294,000	340,000	679,000	6.6	43.3	50.1	46.4	53.6
Missouri	40,868	222,193	385,121	648,182	6.3	34.3	59.4	36.6	63.4
Nebraska	14,257	33,000	140,000	187,257	7.6	17.6	74.8	19.1	80.9
North Dakota	7,750	25,550	64,500	97,800	7.9	26.1	66.0	28.6	71.4
South Dakota	14,400	11,000	71,000	96,400	14.9	11.4	73.7	13.4	86.6
Southwest	268,476	1,095,797	964,009	2,328,282	11.5	47.1	41.4	53.2	46.8
Arizona	22,089	151,705	101,113	274,907	8.0	55.2	36.8	60.1	39.9
New Mexico	29,089	119,212[j]	44,546	192,847	15.1	61.8[j]	23.1	72.6	27.4
Oklahoma	42,00	115,000	195,000	352,000	11.9	32.7	55.4	37.1	62.9
Texas[k]	175,298	709,880	623,350	1,508,528	11.6	47.1	41.3	53.3	46.7
Rocky Mountains	68,664	275,648	496,375	840,687	8.2	32.8	59.0	35.8	64.2
Colorado	26,000	88,000	252,000	366,000	7.1	24.0	68.9	25.9	74.1
Idaho[*]	9,575	42,000	51,000	102,575	9.3	40.9	49.7	45.2	54.8
Montana[*]	9,000	35,000	83,000	127,000	7.1	27.6	65.4	29.7	70.3
Utah	11,089	94,648	76,375	182,112	6.1	52.0	41.9	55.6	44.4
Wyoming	13,000	16,000	34,000	63,000	20.6	25.4	54.0	32.0	67.8
Far West	290,492	1,736,669	2,770,939	4,798,100	6.1	36.2	57.8	38.5	61.5
California	215,000	1,260,000	2,200,000	3,675,000	5.9	34.3	59.9	36.4	63.6
Nevada	6,500	35,300	49,100	90,900	7.2	38.8	54.0	41.7	58.3
Oregon	28,992	76,369	326,839	432,200	6.7	17.7	75.6	18.9	81.1
Washington	40,000	365,000	195,000	600,000	6.7	60.8	32.5	65.2	34.8
Alaska	18,830	32,780	21,700	73,310	25.7	44.7	29.6	59.3	40.7
Hawaii	15,300	130,000	8,000	153,300	10.0	84.8	5.2	94.2	5.8

[*] Estimated by NEA Research Division.

[a] Percents may not add up to 100.00 because of rounding.

[b] Includes Federal grant programs to State and local school systems, including funds under the Elementary and Secondary Education Act, Economic Opportunity Act, Aid to Federally Impacted Areas, National Defense Education Act, Manpower Development and Training, Vocational Education, etc. Funds received from the School Lunch and Milk Program are included, but reporting on the money value of commodities received is incomplete. ESEA revenues have generally been estimated on an anticipated cash expenditure basis at a level similar to outlays in the previous year.

[c] Includes revenue receipts from local and intermediate sources, gifts, and tuition and fees from patrons.

[d] Excludes State's share of teacher retirement and social security.

[e] Includes Federal appropriations for capital outlay, civil defense, Capitol Page School, and other Federally funded programs listed in footnote b above.

[f] Includes Social Security and Teacher Retirement for all educational agencies and institutions.

[g] Excludes revenues for public junior colleges which are operated by a junior college district board of trustees.

[h] Includes State payments of $20,681,820 for teacher retirement.

[i] Includes State appropriation for area vocational schools and junior colleges.

[j] Includes revenues for operation of the Public School Finance Division which is not a part of the State department of education.

[k] Excludes revenues for kindergartens.

Source: National Education Association, *Estimates of School Statistics 1968-69*, Research Report 1968-R16. (Copyright 1968 by the National Education Association; all rights reserved).

TABLE A-8–SCHOOL ENROLLMENT AND SCHOOL SYSTEMS WITH SELECTED CHARACTERISTICS BY STATE, OCTOBER 1966

State	Total enrollment (000 omitted)	Number of school systems	Coterminous with city or county	With at least half of pupils enrolled: Size class	Number	Enrollment (000 omitted)
United States	43,832	23,390	2,212	6,000+	879	25,601
Alabama	834	119	70	6,000+	38	574
Alaska	62	28	24	12,000+	2	36
Arizona	396	247	7	6,000+	15	227
Arkansas	440	402	11	1,800+	51	240
California	4,697	1,240	145	12,000+	82	2,659
Colorado	505	191	14	12,000+	9	283
Connecticut	593	178	120	6,000+	27	325
Delaware	114	51	3	6,000+	10	69
Dist. of Columbia	147	1	1	—	–	—
Florida	1,326	67	67	25,000+	11	950
Georgia	1,081	194	152	6,000+	30	630
Hawaii	166	1	–	—	–	—
Idaho	180	120	11	6,000+	17	102
Illinois	2,220	1,350	60	3,000+	124	1,406
Indiana	1,152	400	34	6,000+	34	583
Iowa	640	478	3	1,800+	73	367
Kansas	528	360	21	3,000+	30	274
Kentucky	664	202	91	3,000+	60	459
Louisiana	819	68	61	12,000+	16	507
Maine	225	334	13	1,800+	36	120
Maryland	805	24	24	25,000+	5	610
Massachusetts	1,078	398	42	6,000+	42	569
Michigan	2,079	635	81	6,000+	64	1,128
Minnesota	836	1,287	31	3,000+	52	486
Mississippi	598	161	49	3,000+	78	445
Missouri	959	870	33	6,000+	27	477
Montana	170	713	14	1,200+	28	104
Nebraska	329	2,322	22	1,200+	36	188
Nevada	109	17	17	25,000+	2	86
New Hampshire	134	190	17	1,800+	16	70
New Jersey	1,345	605	305	3,000+	125	883
New Mexico	268	90	6	6,000+	10	163
New York	3,354	939	44	6,000+	83	2,089
North Carolina	1,207	198	79	6,000+	66	857
North Dakota	151	539	8	600+	46	84
Ohio	2,357	713	60	3,000+	190	1,649
Oklahoma	590	960	7	3,000+	27	318
Oregon	468	398	8	3,000+	34	289
Pennsylvania	2,221	803	142	3,000+	222	1,619
Rhode Island	162	40	8	6,000+	7	92
South Carolina	643	108	26	6,000+	35	450
South Dakota	172	1,984	60	600+	48	98
Tennessee	879	151	88	6,000+	32	579
Texas	2,530	1,310	41	12,000+	38	1,287
Utah	292	40	24	12,000+	7	199
Vermont	87	267	8	600+	38	50
Virginia	1,000	131	126	12,000+	18	542
Washington	787	346	6	6,000+	30	501
West Virginia	422	55	55	6,000+	25	331
Wisconsin	903	588	67	3,000+	50	494
Wyoming	89	177	6	1,800+	12	52

Source: U. S. Department of Commerce, Bureau of the Census, *Governmental Organization*, 1967 Census of Governments, Vol. 1, (Washington, GPO, 1968), Table 13.

TABLE A-9–RATES OF GROWTH OF PUBLIC SCHOOL TAXATION AND PROPERTY TAX COLLECTIONS, 1957-58 TO 1963-64

(Dollar amounts in millions)

State and region	Taxation and appropriations				Local property tax collections			
	1963-1964	1957-1958	Difference	% Increase	1963-1964	1957-1958	Difference	% Increase
United States	$11,150.8	$6,659.2	$4,491.6	67.4	$19,320.8	$12,407.5	$6,913.3	55.7
New England								
Maine	56.6	33.3	23.3	70.0	103.3	68.9	34.4	49.9
New Hampshire	46.9	27.1	18.2	67.2	82.0	52.7	29.3	55.6
Vermont	26.2	16.2	10.0	61.7	41.4	28.8	12.6	43.8
Massachusetts	339.8	197.6	142.2	72.0	837.0	590.0	247.0	41.9
Rhode Island	45.2	31.1	14.1	45.3	98.3	65.6	32.7	49.8
Connecticut	213.1	97.2	115.9	119.2	377.3	231.1	146.2	63.3
Mideast								
New York	1,263.4	790.2	473.2	59.9	2,525.1	1,772.5	752.6	42.5
New Jersey	556.4	309.5	246.9	79.8	1,025.5	631.5	394.0	62.4
Pennsylvania	599.7	359.4	240.3	66.9	822.4	591.4	231.0	39.1
Delaware	11.5	5.8	5.7	98.3	23.3	13.3	10.0	75.2
Maryland	218.6	119.1	99.5	83.5	310.4	187.0	123.4	66.0
Dist. of Columbia	66.9	41.7	25.2	60.4	70.7	52.8	17.9	33.9
Great Lakes								
Michigan	502.2	333.8	168.4	50.4	915.2	610.5	304.7	49.9
Ohio	705.2	433.9	327.4	75.5	1033.2	646.9	386.3	59.7
Indiana	341.5	207.0	134.5	65.0	558.5	334.2	224.3	67.1
Illinois	800.8	477.5	323.3	67.7	1,308.4	895.0	413.4	46.2
Wisconsin	308.9	198.9	110.0	55.3	479.0	342.4	136.6	39.9
Plains								
Minnesota	245.6	145.1	102.5	71.6	483.5	295.9	187.6	63.4
Iowa	252.9	158.2	94.7	59.9	378.5	235.4	143.1	60.8
Missouri	245.8	138.6	107.2	77.3	362.8	235.6	127.2	54.0
North Dakota	41.6	25.9	15.7	60.6	68.5	54.3	14.2	26.2
South Dakota	58.4	42.6	15.8	37.1	87.6	65.0	22.6	34.8
Nebraska	119.0	67.6	51.4	76.0	178.2	116.9	61.3	52.4
Kansas	190.0	124.0	66.0	53.2	305.4	203.3	102.1	50.2
Southeast								
Virginia	172.7	102.7	70.0	68.2	227.8	138.6	89.2	64.4
West Virginia	60.6	39.1	21.5	55.0	86.5	55.6	30.9	55.6
Kentucky	81.1	62.2	18.9	30.4	124.3	102.5	21.8	21.3
Tennessee	84.6	54.0	30.6	56.7	190.3	116.8	73.5	62.9
North Carolina	80.4	51.1	29.3	57.3	198.3	126.5	71.8	56.8
South Carolina	50.1	31.1	19.0	61.1	81.3	55.7	25.6	46.0
Georgia	93.8	54.7	39.1	71.5	213.0	135.3	77.7	57.4
Florida	200.4	102.5	97.9	95.5	440.4	228.8	211.6	92.5
Alabama	44.9	28.1	16.8	59.8	79.7	53.3	26.4	49.5
Mississippi	52.4	31.2	21.2	67.9	93.6	60.9	32.7	53.7
Louisiana	83.8	52.2	31.6	60.5	139.4	96.4	43.0	44.6
Arkansas	58.2	34.0	24.2	71.2	79.7	46.9	32.8	69.9
Southwest								
Oklahoma	112.3	78.8	44.3	65.1	151.1	105.2	45.9	43.6
Texas	424.4	266.5	157.9	59.2	837.4	548.6	280.8	52.6
New Mexico	26.3	10.4	15.9	152.9	42.3	23.5	18.8	80.0
Arizona	108.3	63.4	44.9	70.8	150.8	70.2	80.6	114.8
Rocky Mountain								
Montana	56.7	37.2	19.5	52.4	90.1	68.5	21.6	31.5
Idaho	38.4	27.5	10.9	39.6	65.6	48.0	17.6	36.7
Wyoming	21.5	13.0	8.5	65.4	39.1	25.1	14.0	55.8
Colorado	169.6	95.1	74.5	78.3	239.6	147.6	92.0	62.3
Utah	57.2	39.1	18.1	46.3	82.9	57.2	25.7	44.9
Far West								
Washington	130.4	70.5	59.9	85.0	215.4	129.2	86.2	66.7
Oregon	168.0	100.6	67.4	67.0	216.6	148.3	68.3	46.1
Nevada	21.4	9.8	11.6	118.4	34.7	19.6	15.1	77.0
California	1,473.9	787.6	686.3	87.1	2,681.9	1,456.1	1,225.8	84.2
Alaska	8.9	4.7	4.2	89.4	12.5	6.6	5.9	89.4
Hawaii	14.5	33.0	–15.5	–47.0	30.9	16.0	14.9	93.1

Sources: U.S. Department of Health, Education and Welfare, Office of Education, *Statistics of State School Systems, 1963-64* (Table 28) *and 1957-58* (Table 25). U. S. Bureau of the Census *Governmental Finances in 1963 and Historical Statistics on Governmental Finances and Employment* (1962 Census of Governments), Vol. VI, No. 4.

TABLE A-10–ESTIMATED AMOUNT AND PERCENT OF FLAT AND EQUALIZING EDUCATIONAL GRANTS, BY STATE, 1966-67

State	Total State grants	Flat grants		Equalizing grants	
	Amount (in millions)	Amount (in millions)	Percent of total	Amount (in millions)	Percent of total
United States	9,645.2	2,970.2	30.8	6,675.0	69.2
Alabama	185.3	20.8	11.2	164.5	88.8
Alaska	34.5	16.1	46.7	18.4	53.3
Arizona	80.7	69.0	85.5	11.7	14.5
Arkansas	75.8	11.8	15.5	64.0	84.5
California	1,019.7	680.7	66.8	339.0	33.2
Colorado	83.8	32.7	39.1	51.1	60.9
Connecticut	106.3	102.3	96.3	4.0	3.7
Delaware	58.2	58.2	100.0	0.0	0.0
Dist. of Columbia	—	—	—	—	—
Florida	339.0	86.8	25.6	252.2	74.4
Georgia	287.0	14.3	5.0	272.7	95.0
Hawaii	—	—	—	—	—
Idaho	31.7	.1	0.3	31.6	99.7
Illinois	273.6	131.0	47.9	142.6	52.1
Indiana	238.5	57.8	24.2	180.7	75.8
Iowa	51.0	46.7	91.7	4.3	8.3
Kansas	98.1	12.1	12.3	86.0	87.7
Kentucky	149.3	2.4	1.6	146.9	98.4
Louisiana	276.6	53.9	19.5	222.7	80.5
Maine	29.9	1.6	5.5	28.3	94.5
Maryland	144.7	27.5	19.0	117.2	81.0
Massachusetts	155.8	23.8	15.2	132.0	84.8
Michigan	507.1	31.2	6.2	475.9	93.8
Minnesota	205.7	48.5	23.6	157.2	76.4
Mississippi	112.9	25.9	23.0	87.0	77.0
Missouri	156.4	135.9	86.9	20.5	13.1
Montana	30.0	7.0	23.3	23.0	76.7
Nebraska	6.2	6.2	100.0	-0-	0.0
Nevada	31.1	.2	0.8	30.9	99.2
New Hampshire	8.1	4.6	56.2	3.5	43.8
New Jersey	222.1	126.7	57.0	95.4	43.0
New Mexico	106.6	106.4	99.8	0.2	0.2
New York	1,462.0	12.5	0.9	1,449.5	99.1
North Carolina	280.3	280.3	100.0	-0-	0.0
North Dakota	20.5	2.5	12.2	18.0	87.7
Ohio	327.7	.3	0.1	327.4	99.9
Oklahoma	74.6	22.7	30.5	51.9	69.5
Oregon	86.4	72.8	84.3	13.6	15.7
Pennsylvania	583.7	62.4	10.7	521.3	89.3
Rhode Island	29.4	-0-	0.0	29.4	100.0
South Carolina	143.5	143.5	100.0	-0-	0.0
South Dakota	10.3	2.8	27.1	7.5	72.9
Tennessee	170.1	6.9	4.0	163.2	96.0
Texas	554.9	225.5	40.6	329.4	59.4
Utah	86.9	5.4	6.3	81.5	93.7
Vermont	15.2	3.7	24.3	11.5	75.7
Virginia	152.7	29.5	19.3	123.2	80.7
Washington	284.9	51.2	18.0	233.7	82.0
West Virginia	93.3	41.0	43.9	52.3	56.1
Wisconsin	141.3	61.2	43.3	80.1	56.7
Wyoming	21.7	3.7	17.1	18.0	82.9

Source: U. S. Department of Health, Education and Welfare, Office of Education, *Public School Finance Program 1966-67*, By State.

TABLE A-11–EQUALIZING GRANTS *AS A* PERCENT OF TOTAL STATE GRANTS FOR EDUCATION FOR SELECTED YEARS, 1953-54, 1957-58, 1962-63, AND 1966-67

State	1966-67	1962-63	1957-58	1953-54
All States	69.2	61.7	58.6	47.7
Alabama	88.8	87.2	87.1	87.3
Alaska	53.3	-0-	-0-	-0-
Arizona	14.5	-0-	-0-	-0-
Arkansas	84.5	93.3	80.4	74.2
California	33.2	30.4	30.0	28.6
Colorado	60.9	83.6	81.3	40.7
Connecticut	3.7	-0-	2.6	5.1
Delaware	-0-	-0-	-0-	-0-
Dist. of Columbia	-0-	-0-	-0-	-0-
Florida	74.4	76.5	71.7	98.0
Georgia	95.0	96.2	94.0	95.6
Hawaii	-0-	-0-	-0-	-0-
Idaho	99.7	98.9	98.3	98.2
Illinois	52.1	47.6	59.4	55.0
Indiana	75.8	96.4	98.4	98.2
Iowa	8.3	14.3	17.9	16.2
Kansas	87.7	55.7	72.9	67.8
Kentucky	98.4	97.9	98.2	16.9
Louisiana	80.5	85.5	51.7	14.0
Maine	94.5	95.0	94.5	92.9
Maryland	81.0	38.4	53.4	42.7
Massachusetts	84.8	69.2	71.3	73.2
Michigan	93.8	76.9	77.0	52.7
Minnesota	76.4	72.6	24.5	11.5
Mississippi	77.0	72.2	73.4	40.0
Missouri	13.1	14.0	15.0	7.8
Montana	76.7	67.3	63.1	53.9
Nebraska	-0-	-0-	-0-	9(1)
Nevada	99.2	99.4	99.3	6.2
New Hampshire	43.8	55.1	66.2	95.1
New Jersey	43.0	32.9	37.6	33.8
New Mexico	.2	.1	.6	.9
New York	99.1	98.9	89.0	66.1
North Carolina	-0-	-0-	6.5	14.4
North Dakota	87.7	83.3	48.4	42.4
Ohio	99.9	99.9	99.9	33.4
Oklahoma	69.5	74.4	74.1	74.7
Oregon	15.7	17.0	17.7	6.1
Pennsylvania	89.3	91.5	95.1	95.8
Rhode Island	100.0	100.0	10.4	3.7
South Carolina	-0-	-0-	-0-	-0-
South Dakota	72.9	-0-	-0-	-0-
Tennessee	96.0	(2)	80.7	69.3
Texas	59.4	54.9	40.9	35.8
Utah	93.7	97.4	97.0	97.0
Vermont	75.7	-0-	60.9	81.5
Virginia	80.7	23.3	10.0	5.4
Washington	82.0	29.1	37.3	38.9
West Virginia	56.1	78.2	87.3	95.7
Wisconsin	56.7	45.6	33.1	24.0
Wyoming	82.9	83.6	82.9	3.5

[1] Less than .05 percent.

[2] Omitted for lack of data.

Source: U.S. Department of Health, Education and Welfare, Office of Education, *State Programs for Public School Support 1962-63*, *Public School Financing Programs 1957-58*, and unpublished data for 1966-67 (Washington: U.S. Government Printing Office).

TABLE A-12—RATIOS OF CLASSROOM UNIT EXPENDITURES AT ONE SELECTED PERCENTILE TO ANOTHER, BY STATE: 1959-60

State (1)	Ratio of high to low (98th to 2d percentile) (2)	Ratio of high to median (98th to 50th percentile) (3)	Ratio of median to low (50th to 2d percentile) (4)
UNITED STATES	3.86	1.75	2.21
Alabama	1.62	1.31	1.24
Alaska	1.63	1.11	1.47
Arizona	2.30	1.56	1.47
Arkansas	2.45	1.71	1.43
California	1.91	1.34	1.43
Colorado	1.86	1.26	1.48
Connecticut	2.02	1.47	1.38
Delaware	1.87	1.44	1.30
Florida	1.53	1.26	1.22
Georgia	2.26	1.71	1.32
Idaho	1.81	1.36	1.33
Illinois	2.49	1.50	1.66
Indiana	2.68	1.39	1.93
Iowa	2.52	1.39	1.82
Kansas	2.63	1.37	1.92
Kentucky	2.45	1.83	1.34
Louisiana	1.47	1.24	1.19
Maine	2.14	1.35	1.59
Maryland	1.63	1.20	1.37
Massachusetts	1.82	1.37	1.33
Michigan	3.49	1.61	2.17
Minnesota	3.30	1.36	2.43
Mississippi	2.30	1.65	1.40
Missouri	3.96	1.51	2.63
Montana	2.29	1.37	1.67
Nebraska	2.75	1.37	2.00
Nevada	1.37	1.10	1.24
New Hampshire	1.96	1.30	1.51
New Jersey	2.10	1.33	1.58
New Mexico	1.51	1.36	1.11
New York	1.84	1.40	1.31
North Carolina	1.83	1.56	1.17
North Dakota	2.81	1.77	1.59
Ohio	2.61	1.58	1.66
Oklahoma	1.74	1.22	1.43
Oregon	1.58	1.19	1.33
Pennsylvania	1.98	1.44	1.37
Rhode Island	1.75	1.26	1.39
South Carolina	1.85	1.30	1.43
South Dakota	2.74	1.34	2.05
Tennessee	2.25	1.57	1.44
Texas	2.05	1.32	1.55
Utah	1.42	1.20	1.19
Vermont	2.30	1.45	1.59
Virginia	2.95	2.02	1.46
Washington	1.55	1.24	1.26
West Virginia	1.77	1.36	1.30
Wisconsin	3.84	1.50	2.55
Wyoming	1.98	1.50	1.32

Note.—The District of Columbia and Hawaii are not included because each operated as a single school system in 1959-60 with only a single expenditure per classroom unit. They are, however, included in data for the United States.

Source: U.S. Department of Health, Education and Welfare, Office of Education, *Profiles in School Support, a Decennial Overview*, p. 71.

TABLE A-13–ESTIMATED INCREASE IN STATE AID REQUIRED TO CLOSE EQUALIZATION "DOLLAR GAP" 1940, 1950, 1960

(Dollar amounts in millions)

State	1940		1950		1960	
	Amount	Percent of state education aid	Amount	Percent of state education aid	Amount	Percent of state education aid
United States	$255.8	32.4	$404.5	19.7	$765.4	14.4
Alabama	3.8	31.3	2.6	4.9	5.2	4.5
Alaska	—	—	—	—	0.9	10.7
Arizona	0.2	3.7	2.4	21.3	6.0	12.7
Arkansas	1.4	17.9	2.4	7.0	3.9	8.9
California	18.2	20.6	32.7	14.2	71.2	9.5
Colorado	2.3	74.2	4.1	36.4	7.4	22.0
Connecticut	2.4	135.7	3.8	28.7	9.0	18.0
Delaware	0.3	11.8	0.5	7.6	2.1	5.2
Florida	3.0	23.1	4.8	9.5	9.2	4.8
Georgia	4.4	26.5	3.9	7.2	6.8	5.1
Idaho	0.7	27.0	1.0	18.1	1.7	10.4
Illinois	22.6	137.4	31.6	65.0	58.9	38.1
Indiana	4.7	22.3	12.7	21.1	32.2	31.3
Iowa	7.1	489.3	12.2	48.0	14.1	36.4
Kansas	5.7	85.4	7.8	35.1	11.0	27.0
Kentucky	1.4	14.1	3.1	11.0	4.5	6.5
Louisiana	5.2	29.9	3.5	5.4	7.2	4.5
Maine	0.9	40.7	1.8	29.7	4.0	27.9
Maryland	1.1	18.0	3.7	15.0	13.8	18.4
Massachusetts	4.5	45.7	9.1	35.1	18.6	27.6
Michigan	13.2	26.5	23.7	17.1	64.0	21.1
Minnesota	7.0	36.0	12.8	28.4	20.4	15.6
Mississippi	2.9	33.9	7.5	24.5	4.3	5.1
Missouri	6.0	21.2	11.6	23.3	28.8	31.7
Montana	1.4	44.7	2.6	28.7	2.7	15.8
Nebraska	4.0	216.0	7.5	209.0	9.4	138.2
Nevada	0.2	32.9	0.5	20.5	1.3	8.6
New Hampshire	0.4	55.1	1.1	132.7	1.9	69.8
New Jersey	9.3	41.0	14.4	52.4	28.1	28.5
New Mexico	0.8	13.2	1.0	4.5	0.7	1.2
New York	51.2	39.5	50.1	21.4	70.2	10.4
North Carolina	3.3	10.7	3.1	3.0	6.4	3.4
North Dakota	0.9	26.8	3.1	46.0	3.5	19.7
Ohio	10.1	18.8	19.7	23.2	49.4	28.8
Oklahoma	2.0	14.2	3.8	9.2	9.5	12.7
Oregon	2.0	77.8	4.0	17.9	4.0	7.0
Pennsylvania	20.7	36.3	35.8	32.3	36.3	9.3
Rhode Island	0.5	61.4	1.3	39.2	2.2	21.1
South Carolina	4.1	37.5	4.2	11.7	5.1	7.2
South Dakota	1.3	47.0	3.7	116.9	6.9	107.0
Tennessee	1.6	14.1	3.5	6.4	11.1	10.6
Texas	9.2	18.9	12.7	9.7	47.3	14.6
Utah	0.6	11.7	0.7	4.1	2.0	5.3
Vermont	0.4	36.7	0.8	27.6	1.7	27.2
Virginia	3.0	25.9	5.4	15.8	16.0	19.0
Washington	2.0	9.2	4.2	6.2	8.2	5.2
West Virginia	1.0	6.0	2.8	6.1	3.9	6.1
Wisconsin	7.0	61.1	11.9	49.5	31.5	45.5
Wyoming	0.7	41.5	1.4	26.7	1.0	6.0

Note: Equalization "dollar gap" means the difference between the amount spent on classrooms supported below the State median and the amount required to support classrooms at the State median expenditure. The calculation for 1940 is based on State aid data for 1942 and probably understates the dollar gap for that year. Hawaii and the District of Columbia are omitted from the table because each constitutes a single school system.

Source: Forrest W. Harrison and Eugene P. McLoone, *Profiles in School Support*, U. S. Department of Health, Education, and Welfare, Office of Education (GPO: Washington), 1965, Table 23 and U.S. Department of Commerce, Bureau of the Census, *Revised Summary of State Government Finances*, 1942-1950 and *Compendium of State Government Finances 1960*.

Chapter IV

Financing Welfare and Health Programs

This chapter focuses attention on the shortcomings in the present allocation of responsibility among Federal, State and local governments for the financing of the poverty-related functions—public welfare and health programs. More specifically, it underscores the need for: (a) assumption by the National Government of complete responsibility for the financing of public welfare programs including Medicaid and (b) incorporation by State governments of an equalization factor into their aid systems for local public health and hospital programs.

FINANCING PUBLIC WELFARE—FEDERAL RESPONSIBILITY

Since enactment of the Social Security Act in 1935, the United States has relied primarily on a system of "poor relief" that is both intergovernmental in character and "categorical" in scope. The categorical nature of our Federal-State public welfare system reflects a rather deeply-rooted belief that public aid should be restricted to those who are both virtually destitute and demonstrably incapable of attaining economic self-sufficiency. As a result, these federally-aided State administered programs provide public assistance only to particular groups that are both poor and helpless. Collectively, these five federally aided programs are referred to as categorical assistance—for the aged (OAA), families with dependent children (AFDC), the blind (AB), the permanently and totally disabled (APTD) and the medically indigent (Medicaid).

In theory at least, the able-bodied poor, can receive income support under general assistance, a program financed completely from State and local resources. In practice, most of the "working poor" or the employable poor are not eligible for income support from public funds.

The categorical aid system has also come under heavy criticism because, until quite recently, welfare payments were reduced dollar-for-dollar as earnings of recipients increased. In effect, this constituted a 100 percent marginal tax rate on earnings for welfare recipients—hardly an incentive to seek gainful employment. Under the 1967 amendments, however, States are required (effective July 1, 1969) to disregard all earnings of school children, plus the first $30 per month of other family earnings as well as one-third of the remainder in computing benefits for families with dependent children. Even this marginal tax rate of 67 percent, however, is still high.

Both the lack of universal coverage of the poor and the built-in disincentives to gainful employment stand out as major arguments in favor of the "negative income tax." Under such a plan, the Federal tax structure would be used to narrow or eliminate the poverty gap—the difference between actual income and the critical level of income that places the individual or family above the poverty line. This difference would be made up by the payment of cash subsidies which are, in effect, negative taxes. Although proponents differ as to whether the negative income tax should replace or supplement present public assistance programs, this proposal is not further discussed here since these plans are not intergovernmental in nature, involving as they do direct payments to the poor.[1]

Because of the growing interstate disparities in welfare costs and program benefits, the second major characteristic—its intergovernmental nature—is also coming under heavy fire. Unlike education, the State and local public welfare function has been heavily supported from Federal funds since the Depression of the 1930's, and in 1968, Federal aid dollars accounted for more than half of all State and local expenditure for "categorical" public assistance.

It is significant that federally-aided public assistance programs constituted the first major effort at Federal-State cooperation in an area that up to that time had been left almost entirely to local governments. The availability of substantial Federal financing and Congressional insistence that the States set up categorical programs to administer Federal welfare aid quickly forced the States into this field in the 1930's.

Current Magnitudes and Trends

Government financing. During 1968, Federal, State and local governments spent more than $9.8 billion for their public assistance programs (table 18). This was about four times the 1950 magnitude and reflects both

TABLE 18–TOTAL PUBLIC ASSISTANCE EXPENDITURES, BY SOURCE OF FUNDS, AND RECIPIENTS AND MONTHLY PAYMENTS FOR SELECTED PROGRAMS, SELECTED YEARS 1950 to 1968
(Dollar amounts in millions, except monthly money payments)

Item	1968	1965	1960	1955	1950
Expenditures for year					
Total	$9,881	$5,868	$4,039	$2,940	$2,489
By source:					
Federal	5,245	3,179	2,055	1,441	1,096
Percent	53.1	54.2	50.9	49.0	44.0
State	3,296	1,958	1,459	1,110	1,128
Percent	33.4	33.4	36.1	37.8	45.3
Local	1,341	732	525	389	265
Percent	13.6	12.5	13.0	13.2	10.6
Selected programs:					
Old age assistance	1,991	2,179	2,015	1,686	1,511
Aid to families with dependent children[1]	3,007	1,991	1,131	684	560
Medical assistance[2]	3,408	—	—	—	—
General assistance	535	454	491	330	363
Number of recipients of money payments[3] (000)					
Old age assistance	2,019	2,087	2,305	2,538	2,786
Aid to families with dependent children[1]	5,609	4,396	3,073	2,238	2,233
General assistance (cases)	356	310	431	314	413
Average monthly money payments[3]					
Old age assistance	68	63	58	50	43
Aid to families with dependent children	170	137	105	86	71
General assistance (per case)	93	69	67	55	47

Note: Beginning October 1950, includes Puerto Rico and Virgin Islands, and beginning 1960, Guam. Number of recipients and average monthly payments exclude vendor payments for medical care (i.e., payments made directly to suppliers of medical care) and cases receiving only such payments. Total expenditures for year include vendor payments for medical care and expenditures for administration, services, and training.

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[1] Includes the children and/or both parents, or/caretaker other than a parent in families where the needs of such adults were considered in determining the amount of assistance.

[2] Prior to the enactment of "Medicaid," medical and hospital vendor payments were included in the basic categorical programs.

[3] As of December, except 1968 as of June.

Source: Department of Health, Education, and Welfare, Social and Rehabilitation Service.

the expansion of programs and price level increases. Despite this increase, this function has grown quite modestly as a component of total general expenditure. Indeed, while public welfare accounted for 8.8 percent of total State and local general expenditure in 1967, this was virtually unchanged from 10 years earlier but considerably below the 13.3 percent figure registered in 1942.

The Federal Government has increased its relative financial contribution between 1950 and 1968, the State contribution has dropped, while the local government share has remained virtually unchanged since 1955. The relative importance of these three sources of finance, however, differs markedly among the particular States, reflecting both the nature of the Federal grant-in-aid and State-local willingness and ability to support public welfare (fig. 11 and tables A-14 and A-15*). In general, the Federal share of public assistance tends to be highest in the Southern States–e.g., Mississippi (78.6 percent), Georgia (76.5 percent), Kentucky (76.2 percent).

Program recipients. As of December 1968, 9.7 million Americans were receiving either categorical or general assistance. By far the largest number, some 6.1 million or 63 percent, received assistance under Aid to Families with Dependent Children–a category that has grown consistently and rapidly during the 1960's. An additional 21 percent were included under Old-Age Assistance. This category, however, has been of declining importance ever since 1950, both in relative terms and in absolute numbers–a decline due in part to expanded social security coverage and benefits. Passage of the Medicare program also seems likely to diminish further the number of recipients in this category. Thus as more of the needs of the elderly are covered by social insurance programs, this group will have some–but diminishing–need for turning to public assistance. A similar relationship with the social insurance system may also account for the declining number of recipients under Aid to the Blind as this ailment is especially common among the elderly. As of December 1968, 82,000 individuals received public assistance payments under this program.

The two other programs, Aid to the Permanently and Totally Disabled and General Assistance, accounted for roughly equivalent numbers of recipients–703,000 and 827,000 respectively. The former, however, has been steadily increasing in numbers ever since it was introduced in 1950 while the latter has declined continuously during the early 1960's, although there has been some increase in recipients recently.

Interstate Variation in Public Assistance Program Benefits

For each of the five public assistance programs, there is a wide diversity among States in program benefits. Average monthly benefits per recipient for Old Age Assistance during December 1968, for example, ranged from a low of $35.75 in Mississippi to a high of $116.15 in New Hampshire, compared to $69.50 for the nation as a whole (table 19). Payments for Aid to the Blind varied from the Mississippi low of $44.70 per recipient to the California high of $144.20–with a United States average of $92.15. Similarly, payments for Aid to the Permanently and Totally Disabled extended from a low of $44.20 per recipient, again in Mississippi, to a high of $133.85 in Iowa–while the national figure was $82.55.

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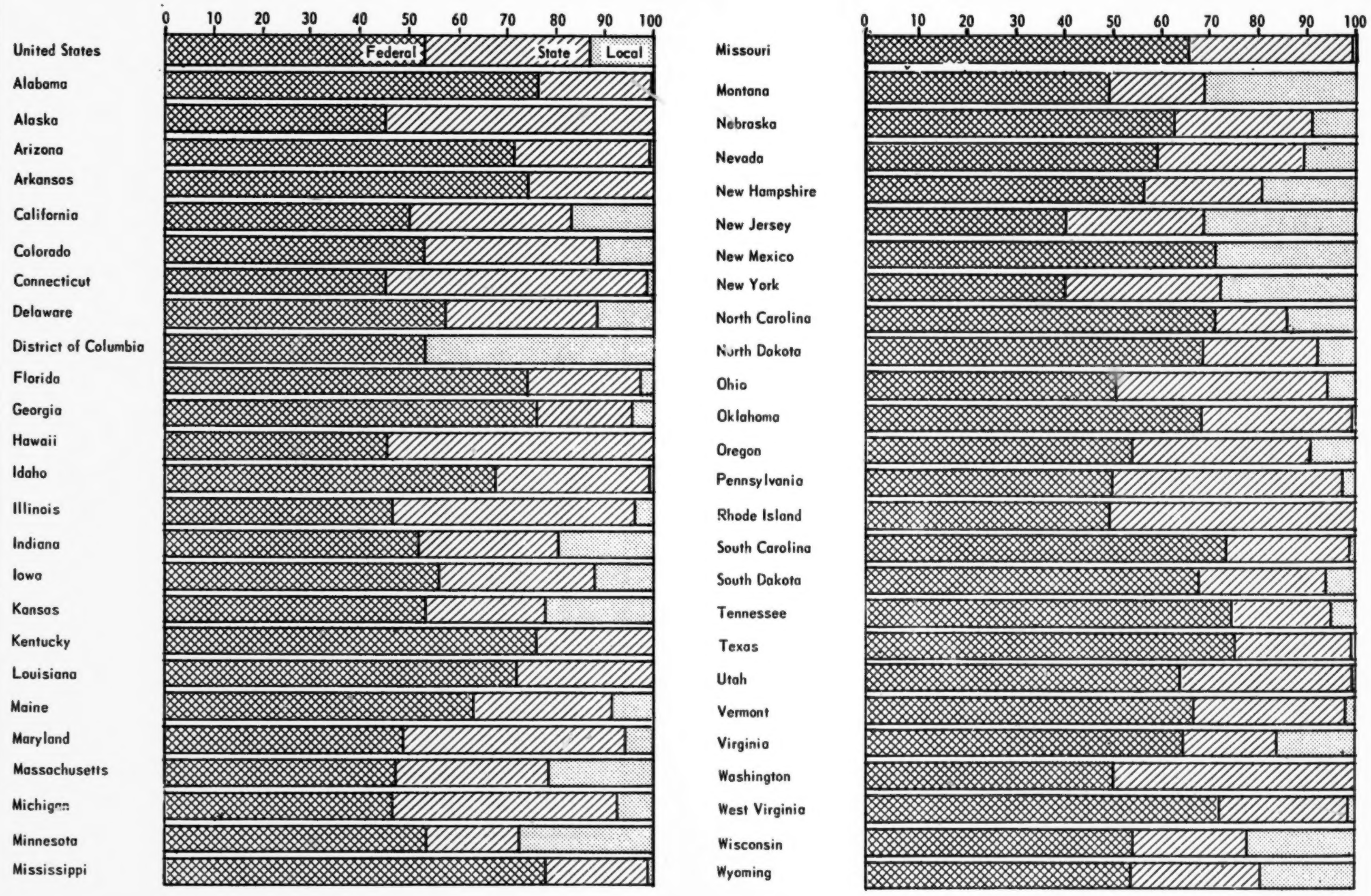
*Appendix tables appear at the end of each chapter.

FIGURE 11

MOST PUBLIC ASSISTANCE EXPENDITURE IS FINANCED FROM FEDERAL FUNDS

FIG 11

Percent Distribution of Public Assistance Expenditures by Source of Funds, 1968



Source: Table A-14.

TABLE 19–INTERSTATE VARIATIONS IN AVERAGE MONTHLY PAYMENT PER RECIPIENT FOR PUBLIC WELFARE PROGRAMS, DECEMBER 1968

Average Monthly Payment for an Individual Recipient	Old-Age Assistance	Aid to the Blind[2]	Aid to the Permanently and Totally Disabled[3]	Aid to Families with Dependent Children	General Assistance[4]
United States Average	$69.50	$92.15	$82.55	$42.00	$44.70
	Number of States[1]				
$ 0.00 to 9.99	....	....	....	1	2
10.00 to 19.99	....	....	....	4	10
20.00 to 29.99	....	....	....	9	9
30.00 to 39.99	1	....	....	16	7
40.00 to 49.99	6	1	2	15	6
50.00 to 59.99	11	3	5	3	4
60.00 to 69.99	16	6	13	3	2
70.00 to 79.99	9	13	10	....	2
80.00 to 89.99	3	14	8	....	....
90.00 to 99.00	2	4	4	....	....
100.00 to 109.00	2	2	3	....	....
110.00 to 119.00	1	6	3	....	....
120.00 to 129.00	....	....	1	....	....
130.00 to 139.00	....	....	1	....	....
140.00 to 149.00	....	1	....	....	....

[1] Includes District of Columbia.

[2] Column total of States excludes Wyoming where there were fewer than 50 recipients.

[3] Column total of States excludes Nevada.

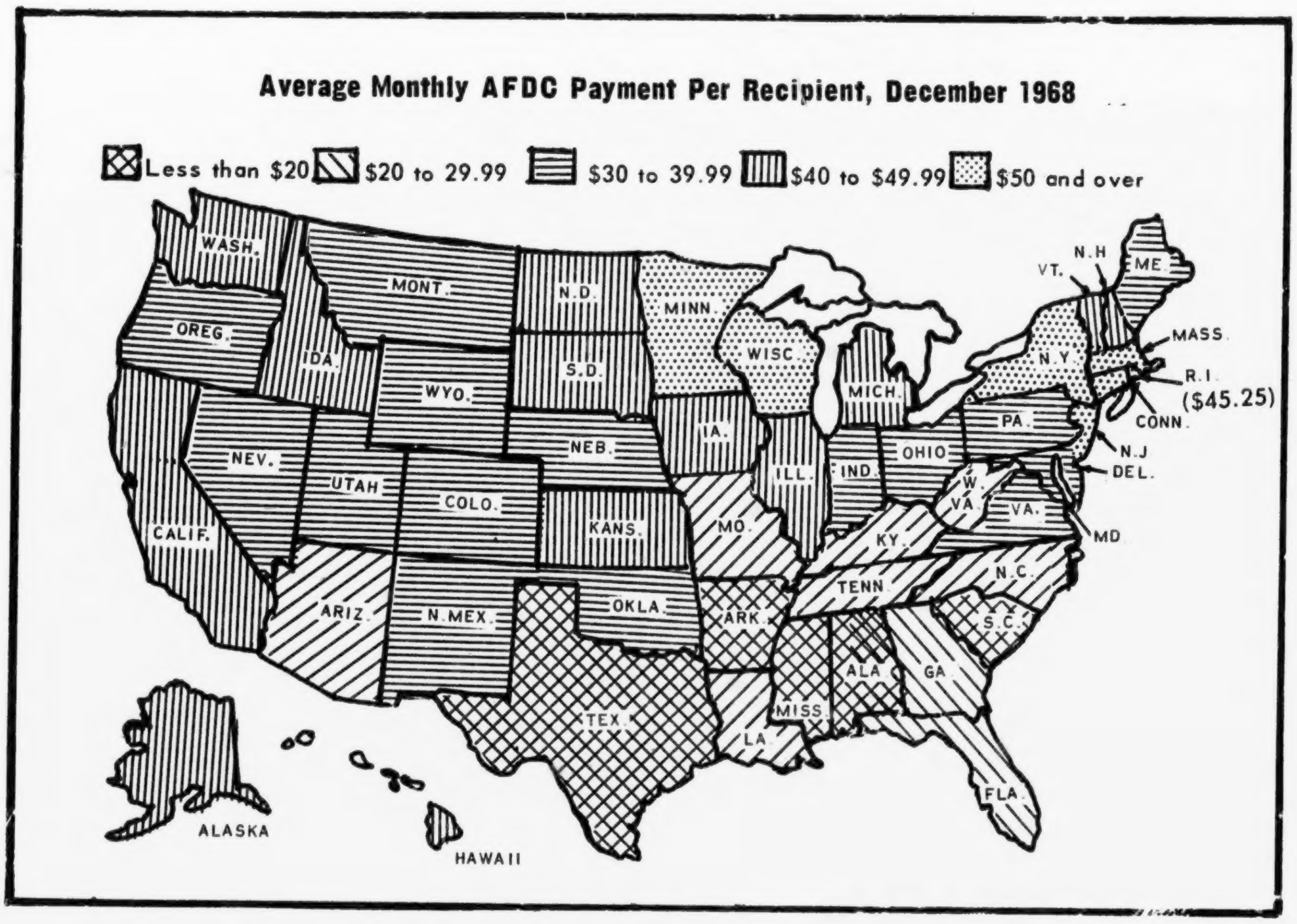
[4] Column total of States excludes States not operating such programs or where data was not available.

Source: U.S. Department of Health, Education and Welfare, *Social Security Bulletin*, April 1, 1969, Table M-24.

For each of these three public assistance programs then, the ratio of high to low benefit levels among the States was approximately 3 to 1.

Diverse as the above ratios are, there is an even greater variability for Aid to Families with Dependent Children and General Assistance. For the former the range extended from $8.50 per recipient in Mississippi to $67.45 in Connecticut–approximately 8 to 1–while the national average was $42.00 (figure 12). Average monthly benefits per recipient for General Assistance extended

FIGURE 12
THERE IS TREMENDOUS INTERSTATE VARIATION IN MONTHLY AFDC BENEFITS


Average Monthly AFDC Payment Per Recipient, December 1968
Less than $20
$20 to 29.99
$30 to 39.99
$40 to $49.99
$50 and over
WASH.
OREG.
CALIF.
NEV.
IDA.
MONT.
WYO.
UTAH
COLO.
ARIZ.
N. MEX.
N.D.
S.D.
NEB.
KANS.
OKLA.
TEX.
MINN.
IA.
MO.
ARK.
LA.
WISC.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S.C.
N.C.
VA.
W. VA.
PA.
N.Y.
VT.
N.H
ME.
MASS.
R.I.
($45.25)
CONN.
N.J
DEL.
MD
ALASKA
HAWAII

Source: *Social Security Bulletin*, April 1969, Table M-24.

from $4.10 in Arkansas to $78.25 in Washington, D.C.–no less than a 19 to 1 ratio, with a national average of $44.70.

Financing Public Assistance: The Intergovernmental Inequities

A sense of urgency surrounds the much debated "welfare crisis." There is general agreement that present arrangements for financing public assistance programs have resulted in severe inequities–both among governmental levels and among individuals. Much of the debate ultimately turns on the matter of money.

Many States and localities are confronting a loss of confidence as they are not able to provide the necessary services demanded by an increasingly militant group of "welfare activists." The growing "participation" by the poor in shaping welfare programs is especially apparent in urban States such as New York and California–States that find public welfare programs exerting rapidly increasing claims on State and local revenue (figure 13 and table A-16).

Central to the public assistance problem is the limited jurisdictional reach of State and local governments. This has led not only to a strain on State-local revenues, but to sharp differences in program levels both among and within States. Further exacerbating the public assistance dilemma, State and local governments cannot effectively control shifts in the national economy and the migration of the poor.

Locational pull and push. Under existing law the size of the welfare payment depends on expenditure decisions made by State and local officials. Since States pursue different policies regarding their public assistance programs, differences in service levels emerge, introducing the element of "locational pull" as recipients or potential recipients seek those areas offering the more attractive programs.

A recent study by the Citizens Budget Commission of New York found that Southern rural areas have succeeded in shifting the bulk of the nation's relief load to Northern urban areas, a shift estimated to encompass about 10 percent of the nation's relief roll since 1959.[2] Singling out the Aid to Families with Dependent Children program, this study noted that Puerto Rico and the nine States giving the smallest relief grants had cut their share of the total national caseload from 30.3 percent in 1959 to 19.2 percent in 1967. By way of contrast, the ten States with the highest level of payments saw their share of such caseloads rise from 21.2 to 30.1 percent. For the ten highest payment States, this increase averaged 148.7 percent between 1959 and 1967, compared to the national average of 74.9 percent and the 11.1 percent increase for the ten lowest payment States.

The study concluded that "the main force" causing people to migrate was a desire to better themselves and the "people don't come to New York City solely to go on welfare." Nonetheless differences in program benefits both among and within States introduce locational considerations–either to capture higher benefit levels or to avoid additional taxes required to finance such programs. Such locational factors then can distort the population redistribution pattern both of individuals and businesses and thereby promote uneconomic migration patterns. Recently, for example, the New York State Commission of Social Services upheld a New York City decision to deny welfare aid to a mother and nine of her twelve children on the ground that they left Mississippi with the sole aim of going on relief. Coming to New York, a woman with twelve children would receive an added $640 per month. For the more typical family of four, the same locational incentive applies. Such a family in Mississippi receives an average monthly payment of $35 but is eligible for $241 per month in New York–a $206 monthly differential that exceeds the $172 it would cost such a family to travel by bus from Jackson, Mississippi to New York City.[3]

The Advisory Council on Public Welfare summarized these program inequities as follows:

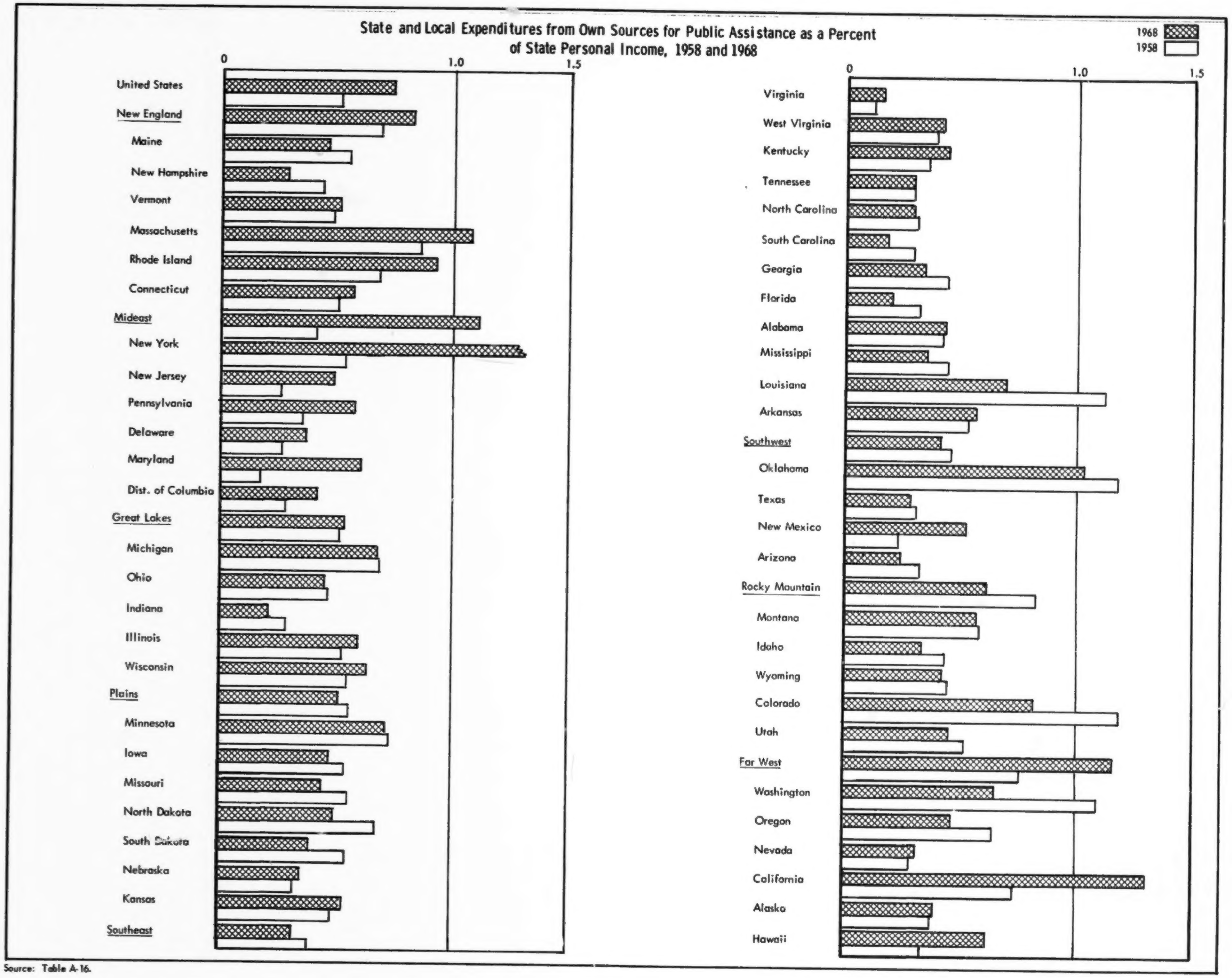
> Some 30 years of experience in leaving the implementation of public welfare programs largely to the fiscal ability and willingness of the State demonstrates that inequities among the States, between programs, and most important between groups of recipients, will persist if the Federal Government does not assume a stronger leadership role.[4]

National origins and interest. To a considerable extent the desire to improve one's economic condition is a dominant consideration in the decision of many of the poor to move. This seems particularly true with regard to the rural-urban redistribution that has marked the American economy for many decades. By responding to the transformation of the economy, such migrants act in the national interest–leaving labor surplus areas and entering localities thought to have more remunerative job opportunities. In this regard then, the migrant not only promotes the national interest but actually responds to forces that are national in origin. Nonetheless, in a very real sense, the agricultural migrant–lacking industrial skills and training–becomes the social problem of the cities and urban States. As such, questions arise concerning the responsibilities of States and localities for financing public assistance services.

To summarize then, the limited financial and jurisdictional reach of State and local governments make these agencies inappropriate mechanisms to provide programs designed to redistribute income. Additional tax efforts at the subnational level have deleterious "feed back" effects on the local or State economy–as the middle- and upper-income classes and business see no additional public services resulting to themselves. Such reactions stimulate "tax-avoidance" thinking and therefore exacerbate State-local fiscal tensions where taxes are avoidable in a sense that a Federal tax is not. Nor can States and

FIGURE 13

PUBLIC WELFARE PROGRAMS EXERT GROWING FINANCIAL PRESSURE ON INDUSTRIAL STATES


State and Local Expenditures from Own Sources for Public Assistance as a Percent of State Personal Income, 1958 and 1968

Source: Table A-16.

localities act solely with regard to the problems of the poor. Like the Federal government, they must balance competing demands for additional tax revenues; unlike the Federal government, however, they must consider the tax-expenditure mix of their neighbors as well. Moreover, to the extent that States and localities do provide redistributive services, they are financed in the main from tax sources that limit the redistributive effect—the very effect that such programs are designed to produce.

Program Imbalances: City and County Poverty Concentrations

The imbalance of public assistance recipients among local jurisdictions was measured in each of the large central cities—containing 250,000 or more people in 1960—and the counties in which they are located. For these jurisdictions the number of public assistance recipients as of February 1968 in each of four groupings of programs was calculated as a percentage of the respective Statewide total and then compared with the county-State population and income ratios, as of 1960. The public assistance programs considered were:

(1) All welfare recipients;

(2) Recipients of old-age assistance, aid to blind and aid to disabled;

(3) Recipients of aid to families with dependent children; and

(4) General assistance recipients.

In presenting such comparisons, it must be noted that, with the exception of eight large central cities, the data on public assistance recipients for the various programs are on a countywide basis and are therefore compared to county-State population and income ratios. Thus, it is not possible to isolate the public assistance ratios for all of the very large central cities. Nonetheless, many of the large cities encompass the vast majority of the counties in which they are located; obviously, in such cases, the city-county distinctions are not significant. For example, Boston contains 88.1 percent of the Suffolk County, Massachusetts population and, while public assistance data are available only for Suffolk County, the latter figures relate predominately to the city of Boston. At the other extreme, however, there is Long Beach, California, which contains only 5.7 percent of the Los Angeles County population. Clearly then, it is not possible to draw any conclusion about the public assistance ratios specifically for Long Beach. To indicate the degree that the large cities contain of their respective county populations, the city-county population ratio, as of 1960, was calculated and all the large central cities presented in terms of this ratio.

As comparisons relate 1960 population and income ratios to February 1968 public assistance proportions, a source of distortion is, of course, introduced since the population redistribution that has occurred since 1960 is not reflected in the population or income ratios that were used. Although the magnitude of the bias that results is not known, its direction generally can be presumed to *understate* the discrepancies. That is, the large central cities have—with some exceptions—either lost population or else have grown more slowly in recent years than the surrounding suburban communities. Moreover, large central cities have found their population composition altered—as the rich move out to the suburban areas and the poor move in. As a result, 1960 population and income ratios are probably higher for the large central cities and the counties in which they are located than the actual 1968 population and income ratios—the preferred figures for comparison with 1968 public assistance recipient and payment ratios.

Despite these reservations, a general picture of imbalance results for the largest cities and the counties in which they are located, particularly for non-Southern areas. Compared to population, a criterion frequently used to measure the need for public goods and services, more than half of the fifty counties—and some two-thirds of the non-Southern counties—had disproportionate ratios of public assistance recipients and payments (table 20). Equally important, these ratios reflect the varying imbalances accounted for by the individual programs. Although the aged, blind, and disabled impose particular problems for many counties—Southern and non-Southern—it is the aid to families with dependent children (AFDC) and general assistance programs that present the greatest imbalances.

TABLE 20—PERCENT OF THE COUNTIES CONTAINING 50 LARGEST CENTRAL CITIES WITH DISPROPORTIONATE PUBLIC ASSISTANCE PROGRAMS

Program (Feb. 1968)	Percent of 50 counties containing a larger relative share of welfare recipients or payments than of:	
	Population (1960)	Income (1960)
Total recipients	54	46
Total payments	54	44
Aged, blind and disabled recipients	26	22
Aged, blind and disabled payments	30	22
AFDC recipients	60	50
AFDC payments	70	58
General assistance recipients[1]	64	52
General assistance payments[1]	74	69

Program (Feb. 1968)	Percent of non-southern counties with largest central cities containing a larger relative share of welfare recipients or payments than of:	
	Population (1960)	Income (1960)
Total recipients	66	55
Total payments	68	55
Aged, blind and disabled recipients	34	26
Aged, blind and disabled payments	37	32
AFDC recipients	66	61
AFDC payments	74	66
General assistance recipients[1]	69	58
General assistance payments[1]	75	78

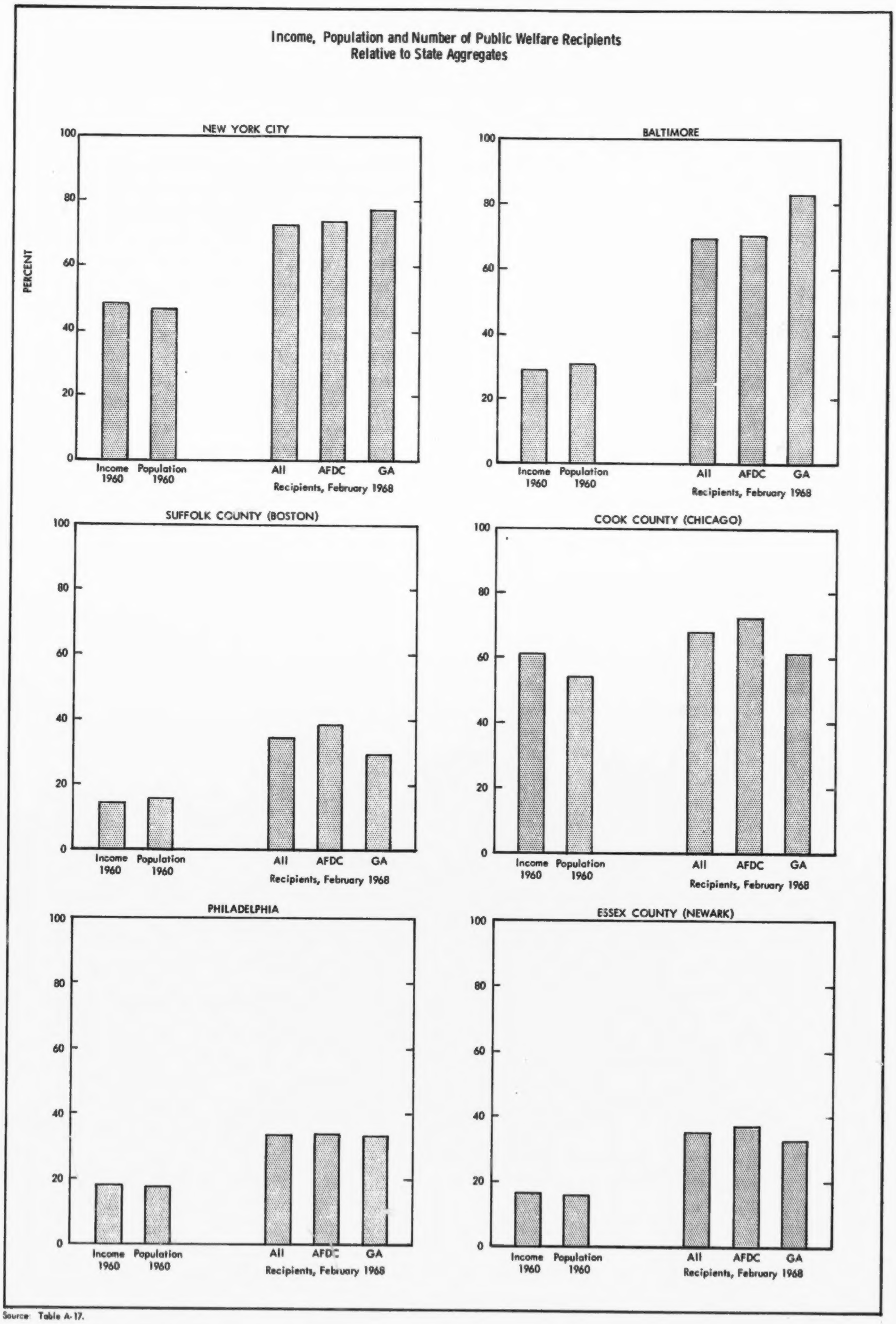
[1] Calculated for fewer than 50 counties as some did not have this program or because data were not available.

Source: Table A-17.

Significant variations exist for specific jurisdictions, revealing dramatic cases of "urban pathology" (figure 14). Baltimore City, with 30.3 percent of the Maryland population and 28.2 percent of the aggregate State income, nonetheless contains:

FIGURE 14

PUBLIC WELFARE CONTRIBUTES SIGNIFICANTLY TO "URBAN PATHOLOGY" – SOME EXTREME CASES



Income, Population and Number of Public Welfare Recipients Relative to State Aggregates

Source: Table A-17.

- Approximately 70 percent of the recipients and payments for public assistance programs in Maryland–2 1/3 times its population and income ratios.
- Approximately 60 percent of the recipients and payments for the aged, blind and disabled–twice the population and income proportions.
- Again 70 percent of the recipients and payments for aid to families with dependent children.
- Over 80 percent–or more than 2 2/3 times the population and income ratios–of general assistance recipients and payments.

A comparable picture emerges for New York City. With 46 percent of the State population and 48 percent of the income, New York City has:

- 72.5 percent of the State's welfare recipients;
- 75.2 percent of the State's welfare payments;
- 66.2 percent of the State's aged, blind and disabled recipients;
- 70.1 percent of the State's aged, blind and disabled payments;
- 73.4 percent of the State's AFDC recipients;
- 75.9 percent of the State's AFDC payments;
- 77.0 percent of the State's general assistance recipients;
- 77.0 percent of the State's general assistance payments.

The remaining counties containing the 50 largest central cities further illustrate the varying degrees of imbalance between public assistance programs and population or income (table A-17). These program imbalances serve to indicate the financial strain that public assistance programs place not only on the particular local jurisdiction–whether city or county–but, because of the State-local division of financial responsibilities, on State governments as well.

State-Local Tax Differentials

The existence of poverty concentrations means, in effect, that the States and localities must finance such programs by disproportionate fiscal efforts if comparable services are to be provided. These additional tax efforts, however, must be made not only by governmental units that–because of their limited jurisdictional reach–are unsuited to assuming responsibility for the redistribution of income but from tax bases composed of disproportionate shares of poor people, those with the least tax paying ability.

To some extent such tax differentials can affect the location of economic activity. There have been several studies relating to this topic and their general conclusion has been that because State-local taxes are so small a part of total business costs, their impact cannot be decisive in the ultimate locational decision.[5] In the main, however, these earlier studies have dealt with interstate tax differentials and several reservations must be added when intrastate locational decisions are in order.[6]

For one, there are bound to be instances where tax differentials are important to firms that are on the margin of profitability. Such firms or industries may indeed be "sick," in the economic sense, but it is just such firms that are most likely to employ the poverty-prone–those with low skills, lack of education, etc. Additional local taxes that cause such firms to relocate out of the metropolitan region or to shut down completely tend only to compound the welfare problem by placing additional people on public assistance. The Advisory Commission, in a previous study, summarized this issue as follows:

> The relative importance of the tax differential factor in industrial location decisions appears to increase as the location process narrows down to a particular jurisdiction within a given region. As among regions of the country, the non-tax factors such as access to markets and to labor and comparative transportation and supply costs stand out as the primary location considerations. As between neighboring States, there appears to be no direct relationship between industrial growth and tax differentials due largely to the fact that States are careful not to get "too far out of line" with their immediate neighbors. As among local governments within a State and especially within a metropolitan area, tax differentials exert discernible plant location pull–the industrial tax haven stands out as the most conspicuous example. In almost every metropolitan area there exist wide local property tax differentials–a cost consideration that can become a "swing" factor in the final selection of a particular plant location.[7]

In addition to tax differentials, there are undoubtedly other powerful forces–such as population redistribution–leading to the decentralization of economic activity away from the central city. In such cases, tax differentials reinforce the lure of suburbia while adding adverse effects to the central city economy. Moreover, higher city taxes are likely to be of much greater importance relative to other business costs when the choice of a location site is among alternatives within a single metropolitan community where other business costs are more homogenous than when different States or geographic regions are considered.

In a sense apart from the effects of actual tax differences on location decisions, there is the very real fear that further local and State taxes will adversely affect the economic competitive position of the jurisdiction by the possible consequences to existing businesses and individuals. While States and localities are passive reactors to the population redistribution question, they are surely keen competitors for new industry and job opportunities–in some cases restricting their tax bases for a period of years to induce favorable locations, thereby reducing their revenues for financing public services. When tax increases are required, however, States–but particularly localities–cannot simply take into account their own needs for public services; they must consider as well the further constraint on their actions imposed by the tax rates of neighboring communities. To disregard this latter element could very well have the effect of repelling—rather than attracting—new industry and thus may prove self-defeating.

Additional taxation at the subnational level can affect the locational decision of individuals as well as businesses; the reason again being that at the subnational level taxes are "avoidable" because of the relatively limited jurisdictional reach of States, and especially of localities. Nor is it possible to ignore the fact that in the post-World War II period, State and local officials frequently have been forced to adopt new taxes and to raise the rates on existing levies. Such tax actions, necessitated by the relatively sluggish response of State-local tax systems to economic growth and the continued increase in expenditures for vital public services, have hardened the opposition to additional tax increases and make further tax efforts all the more difficult.

State Intergovernmental Programs for Public Welfare, 1967

With relatively few exceptions, State (and Federal) money for the categorical assistance programs was channeled among localities in a fixed ratio to local expenditures in 1967—an approach that completely ignores variations in local fiscal capacity (table A-18). This was also the typical basis of support for the "other" public welfare programs—including local inspection of homes and agencies caring for the aged or children, child welfare services, public welfare administration, general relief, etc.—although a reimbursement basis for approved local expenditures was also used by many State governments for these latter programs.

The general State failure to compensate for variations in local fiscal capacity appears especially ominous. A community's financial ability is surely a relevant measure if it is to support an on-going public service. Moreover, there is the demonstrated tendency for the poor to cluster—making a minimal contribution to the jurisdiction's tax base and exerting maximal demands for public services. Yet in only seven States is the financial adequacy of the recipient locality given explicit consideration in the State government distribution formula—Illinois, Minnesota, Montana, New Jersey, North Carolina, West Virginia, Wyoming (table 21). Two general equalization approaches emerge from the practices of these States:

(1) Part of the State funds is distributed on an equalizing basis at the discretion of a State authority. This is done in North Carolina for old age assistance, aid to families with dependent children and aid to disabled.

(2) The State government picks up all or part of the welfare program costs beyond the amount yielded by a required local property tax rate.

Aside from the North Carolina provision, the equalization feature relates mainly to State aid for the general relief. Such equalization provisions, then, help to pinpoint State financial assistance to those localities where variations in local needs and resources are most striking.

TABLE 21—EQUALIZATION PROVISIONS OF STATE INTERGOVERNMENTAL PAYMENTS FOR PUBLIC WELFARE PROGRAMS, 1967

State	Program	Provision
Illinois	General Relief	Amount appropriated, distributed as reimbursement of local expenditure in excess of required local property tax levy.
Minnesota	Equalization of Welfare Costs	Amount appropriated, distributed to counties with assessed valuations below a specified level, which cannot raise sufficient amounts to meet their share of public welfare costs. Amount is distributed in fixed ratio to its expenditure for public welfare which is in excess of the amount that would be raised by a specified tax levy.
Montana	General Relief	Amount appropriated, distributed on basis of need, to supplement amounts available from local sources in financing requirements for local share of public assistance and other public welfare expenditure.
New Jersey	General Relief	Amount appropriated, distributed in fixed ratio to local expenditure, the appropriate ratio depending on the mill rate of property taxes that would be required to yield amount equal to local expenditure requirements for general relief.
North Carolina	Old-Age Assistance Aid to Families with Dependent Children Aid to Disabled	State and Federal funds distributed in fixed ratio to local expenditure except that part of State funds that is distributed on an equalization basis at the discretion of the State Board of Public Welfare.
West Virginia	General Relief	Amount appropriated, distributed to supplement proceeds of specified county property tax levy in financing approved local expenditure for general relief.
Wyoming	General Relief and County Administration	Amount appropriated, distributed as reimbursement of approved expenditure in excess of amounts available for general relief and county welfare administration from proceeds of required local property tax levy for public welfare.

Source: U.S. Bureau of the Census, *State Payments to Local Governments*, 1967 Census of Governments, Vol. 6, No. 4 (U.S. Government Printing Office, Washington, D.C., 1968).

State-Local Administration

Because of their highly "people-related" nature, the Commission is convinced that public assistance programs should continue to be administered by State and local officials—those closest to the people and their problems. At present, there are two broad approaches to the administration of these programs—State administration and State supervision of locally administered programs.

In 1968 State administration was the practice in 29 State governments, the District of Columbia, Puerto Rico and the Virgin Islands, while 21 States supervised programs administered by local officials. Although there are exceptions to the rule, the general pattern appears to be that lesser local financial participation results where welfare programs are administered by the State (table 22). Indeed, of the thirty-three programs that are State-administered, including the District of Columbia, Guam, Puerto Rico and the Virgin Islands, 23 have no financial participation by local governments at all.

To some extent, however, the distinction between State-administration and State-supervision is more fluid than the above dichotomy suggests. As the Joint Legislative Committee to Revise the Social Welfare Law of New York notes, "In actual practice, a state-administered program with a philosophy of strong local involvement can

TABLE 22–STATE ADMINISTRATIVE PRACTICES AND LOCAL FINANCIAL PARTICIPATION IN PUBLIC WELFARE PROGRAMS, JUNE 30, 1968

State	Percent local finance	State	Percent local finance
State Administrative Approach		Utah	.0
		Vermont	7.0
Alaska	.0	Washington	.0
Arizona	.0	West Virginia	.0
Arkansas	.0	State Supervision Approach	
Connecticut	.0		
Delaware	9.1	Alabama	(2)
Florida	.0	California	14.0
Hawaii	.0	Colorado	7.0
Idaho	0.8	Georgia	3.4
Illinois	.0	Indiana	15.7
Kentucky	.0	Iowa	10.2
Louisiana	.0	Kansas	22.8
Maine	3.6	Maryland	6.2
Massachusetts[1]	18.0	Minnesota	19.4
Michigan	1.5	Montana	12.3
Mississippi	.0	Nebraska	10.5
Missouri	.0	New Jersey	24.0
Nevada	5.7	New York	25.7
New Hampshire	18.0	North Carolina	12.7
New Mexico	.0	North Dakota	4.7
Oklahoma	.0	Ohio	2.5
Pennsylvania	3.2	Oregon	13.0
Rhode Island	.0	South Carolina	.0
South Dakota	.0	Virginia	9.9
Tennessee	4.6	Wisconsin	17.9
Texas	.0	Wyoming	24.4

[1] Under legislation enacted in 1967, all programs in Massachusetts became State-administered as of July 1, 1968.

[2] Less than 0.05 percent.

Source: Report of the Joint Legislative Committee to Revise the Social Welfare Law of New York State, Legislative Documents (1969), Number 9, p. 128.

develop administrative procedures to effect substantial local participation in policy determination and flexibility in operations. Contrariwise, [illegible] locally administered program State supervision can be so strong as to approach State administration."[8] Regardless of the administrative set-up, however, it is the State agency that remains responsible for the development and administration of the State plan. These two approaches nonetheless involve differences regarding several issues related to the "delivery" of public assistance services. At the heart of the debate between State *versus* local administration is the conflict between uniformity over large geographic areas and local experimentation and participation in the provision of this public service.

Among the major arguments advanced for State-administration, listed with no particular priorities, are the following:

(1) Consistency in philosophy and goals are more readily attained throughout the State.

(2) Uniformity of administration and standards as well as in the application of laws, policies, and procedures is more likely to result.

(3) Responsibility is fixed and visible in State administration.

(4) Enforcement of standards is promoted.

(5) Long-range planning, both statewide and in relation to specific local areas, is facilitated.

(6) There is ability to implement change generally and informally.

(7) Better distribution of work load and hence greater productivity result from State administration.

(8) Career potentials are enhanced under State administration which can provide promotional opportunity, transferability, standardized salaries, and effective training programs.

(9) Program control is facilitated.

(10) Simplification of paper work is more likely.

(11) A general upgrading and greater uniformity in all services and in professional standards should result.

(12) Better coordination with other State-administered programs can be achieved.

Various arguments, however, are also presented in favor of local administration of public welfare programs. Included among these are the following:

(1) Public welfare services should involve direct local participation which is best promoted by local administration.

(2) Community planning is facilitated.

(3) Interagency cooperation and coordination at the community level are easier to attain.

(4) Local people have a better understanding of the needs for local services.

(5) There is more likelihood of experimentation and demonstration.

The above arguments specify the hard choice between State-administration and State-supervision of locally administered public welfare programs.[9] If "like treatment of like individuals" can be accepted as a criterion for judging the alternatives, then the arguments favoring State-administration—with its broader jurisdictional reach—would appear the most persuasive. Nor are experimentation, demonstration projects and comprehensive studies of local needs incompatible with State-administered welfare programs. On the other hand, some hold that if "local self government" is to be a continued virtue of the federal system, then local administrative participation must be retained.

FINANCING PUBLIC HEALTH AND HOSPITAL PROGRAMS–THE EQUALIZING ROLE OF THE STATE

Vast changes have marked the delivery of public health and hospital services over recent decades. Due in part to the economic growth and prosperity of the country as well as the process of technological advance, the content of such services has shifted radically—away from the communicable and infectious diseases, once the predominant causes of death, toward the chronic diseases and degenerative disorders. Thus while there has been an overall decline in mortality rates, there has also been a shift in emphasis from diseases of the young to the health requirements of the elderly. Such changes are not simply a product of the past; they are part of the growth and development of the country and as such will undoubtedly characterize the future.

Acting as a partial offset to the favorable effects of growth and technology, however, has been the continued process of urbanization. This factor, projected to intensify, has heightened awareness and concern over the problems referred to as environmental health. Indeed this field, with its roots in the massing of population in limited areas, seems destined to be of increasing

TABLE 23–NATIONAL HEALTH EXPENDITURES BY SOURCE OF FUNDS, 1960 TO 1967

Year	Expenditure (in millions of dollars)					Percent distribution			
			Public					Distribution of Public	
	Total	Private	Total	Federal	State and Local	Private	Public	Federal	State and Local
1967	50,655	32,833	17,822	11,824	5,998	65	35	66	34
1966	45,006	32,350	12,657	7,051	5,606	72	28	56	44
1965	40,591	30,517	10,075	4,956	5,119	75	25	49	51
1964	37,549	28,283	9,266	4,563	4,704	75	25	49	51
1963	33,629	25,071	8,558	4,208	4,352	75	25	49	51
1962	31,404	23,480	7,924	3,854	4,069	75	25	49	51
1961	28,887	21,611	7,278	3,418	3,860	75	25	47	53
1960	76,973	20,339	6,637	3,012	3,624	75	25	45	55

Source: Dorothy P. Rice and Barbara S. Cooper, "National Health Expenditures, 1950-1966", *Social Security Bulletin*, January 1969, pp. 3-20.

importance–encompassing as it does water and air pollution, the effects of noise on human development and, related in part, the entire area of mental health.

Changes in the types of disease and their more complex and capital-intensive treatment have led to new institutional arrangements and approaches for the provision of public health facilities. Indicative of this is the growth of regional medical complexes designed to bridge the gap between research and general medical care. Such agencies provide assistance to hospitals and health agencies, among others, for the planning and operating of research, training and demonstration programs relating to heart disease, cancer, stroke, etc. Similarly, the comprehensive neighborhood health program attempts to bring a broad scope of health services within the range of the poor. This program includes, but is not limited to, preventive, diagnostic, treatment, rehabilitation, mental health, dental and follow-up services.

Problems of environmental health underscore the need for an approach wider in geographic scope than the locality. Air and water pollution, noise abatement, etc., cannot be handled effectively by governments with limited jurisdictional reach. Extending over broader geographic areas, inter-community efforts are required.

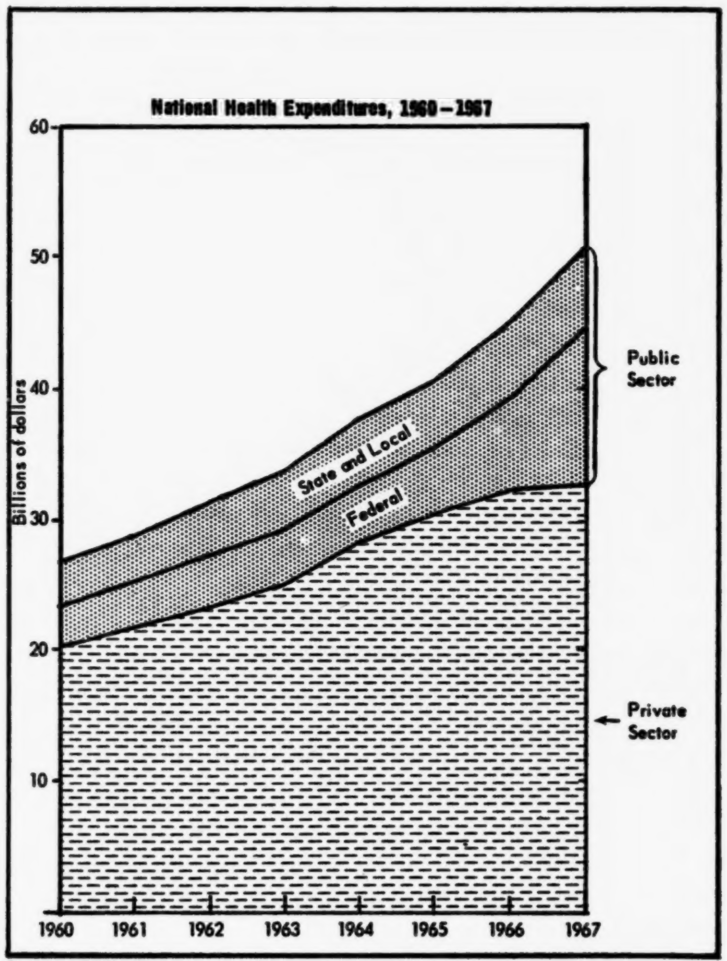
Current Financial Magnitudes and Trends

The provision of health and hospital facilities is a responsibility shared not only among the three governmental levels but with the private sector as well. During 1967, the nation spent $50.7 billion for health and medical care, the equivalent of 6.4 percent of the total output of goods and services (GNP). By far the dominant source of financing was the private sector, accounting for $32.8 billion or 65 percent of the total (figure 15 and table 23). Of the $17.8 billion that was financed by the public sector in 1967, $11.8 billion, or 66 percent, came from the Federal Government (virtually all direct payments for medical and hospital services and facilities and for medical research and training), and the remaining 34 percent came from States and localities.

This 1967 pattern of financing health and medical care services and facilities represents both a new departure as well as an acceleration of a trend that has prevailed during the 1960's. The 1967 composition of private-public expenditures (65 percent to 35 percent) entails a major change from the roughly 3 to 1 ratio that characterized each of the years 1960-1966. This relative expansion in public sources of financing was due in good measure to the implementation of the Medicare program of health insurance for the aged (effective July 1, 1966), and the expansion of other Federal programs. For these reasons, not only has the Federal contribution grown faster than the private sector but it has outstripped the

FIGURE 15

THE PUBLIC SECTOR IS FAST MOVING INTO THE HEALTH FIELD



Source: Table 22.

State-local sector as well. While the Federal source of public funds has increased throughout the 1960's, the expansion in dollar amounts between 1966 and 1967 alone was greater than that for the six-year period 1960-1966. Although 1966 marked the first year in which the Federal component dominated the public financing of health and medical care, the Federal share jumped to nearly two-thirds of the public funds in 1967.

In addition to the public-private financial shifts, there have been significant departures within the private component as third party payments have risen and consumer out-of-pocket expenditures declined in relative importance. Encompassing mainly public health insurance benefit payments and governmental expenditures (including those for the Medicare program of health insurance for the aged), such third party payments have advanced from $3.9 billion or 35.1 percent of personal health care expenditures in 1950 to $24.6 billion or 56.0 percent in 1967.

State-Local Expenditures for Health and Hospitals, 1967*

State and local governments spent a total of $6.6 billion for their public health and hospital programs in 1967, the equivalent of $33.58 per capita (table A-19). Of this amount, about 5 percent came from the Federal Government, nearly half from the State governments and about 45 percent from localities (figure 16). While this represents the governmental sources of financing of the nation as a whole, there are substantial differences among the individual States. There is also a marked diversity in per capita spending for public health and hospital programs among the States. Compared to the U.S. average of $33.58 per capita, the District of Columbia spent nearly 2½ times that amount—$81.83 per capita—while South Dakota spent less than half, $14.82 per capita.

For State governments such expenditures are relatively minor components of their total budgets. During 1967, State expenditures for public hospitals amounted to $3.0 billion while an additional $686 million was spent on public health. This represented 5.6 percent and 1.3 percent respectively of total State general expenditure.

By far the largest portion of State government expenditures for public health and hospitals are made directly. Some $2.9 billion of the $3.0 billion spent by the States for public hospitals was spent in this manner while $500 million of the nearly $700 million spent by States for public health programs was direct expenditure. Not only are intergovernmental payments for public health and hospitals ($185 and $115 million respectively) far less important than direct State expenditures for these purposes, they together represented but 1.6 percent of total State intergovernmental payments in 1967—a continuation of their generally declining importance from the 2.5 percent figure registered in 1952.

State Intergovernmental Programs for Public Hospitals, 1967

State governments differ not only in the State-local division of financial responsibility but also in regard to the particular hospital programs that are State supported and the bases used to allocate State funds among localities. During 1967, eight State governments—Alaska, Connecticut, Delaware, Maine, New Hampshire, North Dakota, Rhode Island and Vermont—did not make any local payments at all. For the 42 State governments that did, these payments covered a variety of programs:

(1) Hospital construction—41 States channeled either Federal or Federal and State aid for this purpose;

(2) Tubercular institutions or patients—supported by 14 State governments;

(3) Hospital care for indigents—supported by 4 State governments;

(4) Other hospital programs—supported by 3 State governments;

(5) Hospital care for mental patients—supported by 3 State governments;

(6) Hospital care for crippled children—supported by 2 State governments, and

(7) Cancer control—supported by 1 State government.

These items represent only the intergovernmental programs supported by State aid. Because they exclude direct State expenditures (data for which are not available on a program basis) they are not intended to measure the total State response in a particular area.

This diversity in programs is matched by an equally diverse set of formulas for the distribution of State support. The one clear finding to emerge, however, regarding State aid for such programs is that—with the exception of one program in one State (tuberculosis hospitals in Washington—"needs" factors (e.g., caseload) are the basis for the State distribution. Aside from the hospital construction program, which is partly supported by Federal funds and allocated in fixed proportion to local expenditures for approved projects, the most frequently used method is to provide State aid at a specified rate per patient per day or some other time period (table A-20).

State Intergovernmental Programs for Public Health, 1967

As in the public hospital area, there is a wide diversity in the degree to which States use intergovernmental mechanisms for the financial support of public health services. During 1967, 12 States—Alaska, Arkansas, Delaware, Hawaii, Idaho, Maine, Mississippi, Montana, New Mexico, Oklahoma, Tennessee, and Vermont—did not

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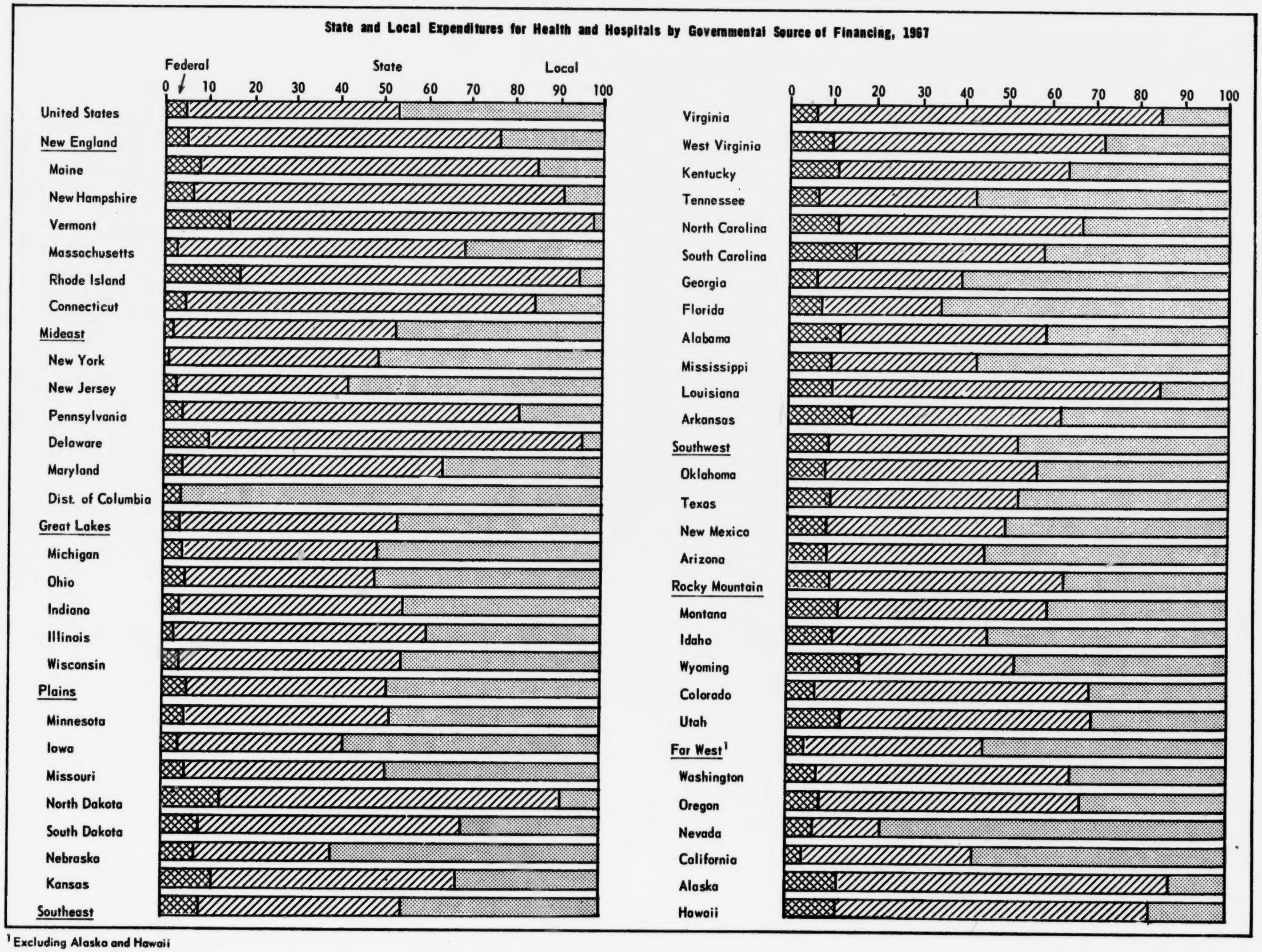
*In this and following sections, U.S. Bureau of the Census financial data are used. These amounts are not directly comparable to the data used in the previous section.

FIGURE 16

STATES AND LOCALITIES FINANCE THE BULK OF THEIR HEALTH AND HOSPITAL EXPENDITURES


State and Local Expenditures for Health and Hospitals by Governmental Source of Financing, 1967

[1] Excluding Alaska and Hawaii

Source: Table A-19.

make any intergovernmental payments at all but provided health services on a direct basis. The remaining States made payments to localities for the following purposes:

(1) County or local health work–27 States;
(2) Care of tuberculosis patients–2 States;
(3) Public health assistance–1 State;
(4) Care of crippled children–3 States;
(5) Programs for handicapped children–1 State;
(6) Mental health programs–14 States, and
(7) Nursing aid–4 States.

Again, the above include only the programs supported by State grants, and exclude direct State expenditures for comparable purposes.

By far the most frequently used basis for distributing State funds for these public health programs is in fixed proportion of local expenditures (see table A-21). Other methods in common use are: for the State Department of Public Health to make the distribution; for State payments to simply reimburse localities for approved health services; or to specify a particular rate for some time period. As in the field of public hospitals, the factors used to determine the distribution of State payments to localities almost exclusively represent "needs". The only programs where fiscal equalization plays any role is for the State support of county or local health programs in New Jersey and for the care of crippled children in California.

Conclusion and Policy Implications

The above summary and examination reveals that–with but few exceptions–the goal of fiscal equalization is not pursued in current State intergovernmental aid for the support of public health and hospital programs. Indeed, there is virtually exclusive reliance upon distribution factors representing "needs" for such services. Nonetheless, if public health and hospital facilities are to be provided by localities–whether rich or poor–equalization provisions will have to be implemented to avoid a disproportionate local tax effort by poorer jurisdictions; such provisions to be used in conjunction with needs criteria.

The findings also support the view that State governments deal with poverty-related programs in the fields of education, welfare, health and hospitals on a program by program basis. This approach, even where effective, does not capture the essentially common element that pervades these programs–namely their relationship to poverty. Some States provide one service directly while using an intergovernmental device for another, making an overall evaluation of their poverty-related efforts the more difficult. In view of the numerous and divergent allocation criteria used to apportion State programs in poverty-related services, States should exploit every opportunity for combining separately administered programs–particularly in the poverty-related services–with a view to considerable consolidation of narrowly defined program grants.

Footnotes

[1] The subject of the negative income tax is fully explored by Christopher Green, *Negative Taxes and the Poverty Problem*, The Brookings Institution (Washington, D.C.: 1967).

[2] *New York Times*, October 4, 1968, p. 28.

[3] *Wall Street Journal*, October 14, p. 8.

[4] U.S. Advisory Council on Public Welfare, *Having the Power, We Have the Duty*, (Washington, D.C., U.S. Government Printing Office: June 1966), p. 10.

[5] See, for example, John F. Due, "Studies of State-Local Tax Influences on Location of Industry," *National Tax Journal*, Vol. 14 (June 1961) for a review and sources of the literature.

[6] See Dick Netzer, "Federal, State and Local Finance in a Metropolitan Context," in Harvey S. Perloff and Lowdon Wingo, Inc., Johns Hopkins Press, 1968, especially pages 444-445.

[7] Advisory Commission on Intergovernmental Relations, *State-Local Taxation and Industrial Location*, A-30, (Washington: April, 1967), pp. 78-79.

[8] New York, Legislature, Joint Legislative Committee to Revise the Social Welfare Law of New York State, *Report*, Legislative Documents (1969), No. 9, (Albany: 1968), p. 129.

[9] For further discussion see *Ibid.*, pp. 107-114.

TABLE A-14—PUBLIC ASSISTANCE EXPENDITURES, BY SOURCE OF FUNDS, AND MONTHLY PAYMENTS TO OLD AGE RECIPIENTS AND TO FAMILIES WITH DEPENDENT CHILDREN, 1968

(Dollar amounts in thousands, except monthly payments)

State	Expenditures (fiscal year)							Average monthly payments (June)	
		Federal funds		State funds		Local funds			
	Total	Amount	Percent	Amount	Percent	Amount	Percent	Old-age assistance	Aid to dependent children (per family)
United States	$9,881,060	$5,244,532	53.1	$3,295,870	33.4	$1,340,658	13.6	$68	$170
Alabama	134,008	101,905	76.0	31,944	23.8	160	.1	59	64
Alaska	7,492	3,360	44.9	4,132	55.1	—	—	80	135
Arizona	35,026	25,189	71.9	9,768	27.9	68	.2	51	122
Arkansas	90,072	67,200	74.6	22,872	25.4	—	—	55	79
California	1,843,948	921,415	50.0	610,458	33.1	312,074	16.9	100	179
Colorado	106,588	56,679	53.2	37,703	35.4	12,206	11.5	78	151
Connecticut	120,945	54,958	45.4	65,127	53.8	860	.7	72	201
Delaware	15,585	9,013	57.8	4,808	30.8	1,765	11.3	63	132
Dist. of Columbia	29,992	16,112	53.7	13,880	46.3	—	—	75	178
Florida	129,632	96,995	74.8	29,705	22.9	2,932	2.3	47	60
Georgia	161,013	123,211	76.5	31,462	19.5	6,340	3.9	52	98
Hawaii	27,993	12,786	45.7	15,207	54.3	—	—	82	184
Idaho	19,839	13,539	68.2	6,285	31.7	14	.1	64	177
Illinois	464,638	219,090	47.2	229,428	49.4	16,121	3.5	60	200
Indiana	71,187	37,232	52.3	20,321	28.5	13,635	19.2	47	136
Iowa	95,568	54,358	56.9	30,327	31.7	10,883	11.4	101	191
Kansas	83,266	44,808	53.8	20,350	24.4	18,108	21.7	88	182
Kentucky	138,339	105,423	76.2	32,916	23.8	—	—	54	111
Louisiana	226,039	163,921	72.5	62,118	27.5	—	—	70	104
Maine	33,324	21,308	63.9	9,367	28.1	2,648	7.9	54	110
Maryland	151,662	74,930	49.4	68,237	45.0	8,495	5.6	60	155
Massachusetts	394,465	187,433	47.5	122,776	31.1	84,256	21.4	80	206
Michigan	373,330	175,243	46.9	170,789	45.7	27,298	7.3	67	184
Minnesota	172,479	92,920	53.9	32,164	18.6	47,395	27.5	63	196
Mississippi	68,749	54,051	78.6	14,166	20.6	532	.8	36	35
Missouri	182,588	120,462	66.0	61,875	33.9	251	.1	68	102
Montana	21,901	10,906	49.8	4,238	19.3	6,758	30.9	64	138
Nebraska	43,850	27,529	62.8	12,352	28.2	3,970	9.1	57	148
Nevada	12,398	7,331	59.1	3,768	30.4	1,298	10.5	75	117
New Hampshire	14,354	8,144	56.7	3,420	23.8	2,791	19.4	108	178
New Jersey	210,657	85,042	40.4	60,176	28.6	65,439	31.1	73	231
New Mexico	44,694	31,856	71.3	12,838	28.7	—	—	54	125
New York	2,053,580	829,734	40.4	650,811	31.7	573,035	27.9	93	282
North Carolina	118,671	84,245	71.0	17,379	14.6	17,047	14.4	66	105
North Dakota	24,917	17,098	68.6	5,937	23.8	1,882	7.6	75	189
Ohio	310,523	158,136	50.9	136,254	43.9	16,134	5.2	61	153
Oklahoma	215,822	148,298	68.7	67,229	31.2	295	.1	72	133
Oregon	61,102	33,274	54.5	22,169	36.3	5,659	9.3	58	152
Pennsylvania	430,956	215,142	49.9	204,437	47.4	11,376	2.6	71	163
Rhode Island	56,650	28,190	49.8	28,459	50.2	—	—	59	185
South Carolina	38,510	28,423	73.8	9,799	25.4	288	.7	46	72
South Dakota	21,425	14,549	67.9	5,608	26.2	1,267	5.9	62	165
Tennessee	103,176	77,246	74.9	20,949	20.3	4,980	4.8	49	105
Texas	342,493	258,087	75.4	81,438	23.8	2,968	.9	60	95
Utah	33,431	21,558	64.5	11,853	35.5	20	.1	54	150
Vermont	18,510	12,417	67.1	5,790	31.3	304	1.6	68	174
Virginia	55,293	35,804	64.8	10,592	19.2	8,897	16.1	56	128
Washington	145,312	74,045	51.0	71,268	49.0	—	—	62	174
West Virginia	62,161	45,167	72.7	16,100	25.9	895	1.4	62	115
Wisconsin	186,299	101,827	54.7	42,847	23.0	41,625	22.3	62	196
Wyoming	7,872	4,258	54.1	2,110	26.8	1,504	19.1	78	142
Other areas[1]	68,733	32,682	47.5	29,865	43.5	6,186	9.0	21	80

[1] Includes Guam, Virgin Islands, and Puerto Rico.

Note: Expenditures include vendor payments for medical care made under all public assistance programs and expenditures for administration, services, and training. Average monthly payments exclude vendor payments for medical care and cases receiving only such payments.

TABLE A-15—MEDICAL ASSISTANCE: VENDOR PAYMENTS FOR MEDICAL CARE IN BEHALF OF RECIPIENTS BY SOURCE OF FUNDS, FISCAL YEAR ENDED JUNE 30, 1968[1]

(Amounts in thousands)

State	Month and year State began operation	Total vendor payments for medical care	Federal funds		State funds		Local funds	
			Amount	Percent	Amount	Percent	Amount	Percent
Total	---	$3,265,618	$1,611,644	49.4	$1,160,525	35.5	$493,449	15.1
California	March 1966	629,417	314,708	50.0	214,116	34.0	100,592	16.0
Connecticut	July 1966	47,661	23,826	50.0	23,834	50.0	—	—
Delaware	Oct. 1966	3,300	2,013	61.0	1,287	39.0	—	—
Georgia	Oct. 1967	28,699	23,376	81.5	5,322	18.5	—	—
Guam	Nov. 1967	82	41	50.0	41	50.0	—	—
Hawaii	Jan. 1966	9,798	4,486	45.8[2]	5,312	54.2	—	—
Idaho	July 1966	6,412	4,521	70.5	1,891	29.5	—	—
Illinois	Jan. 1966	148,601	74,170	49.9	74,431	50.1	—	—
Iowa	July 1967	21,610	12,879	59.6	8,730	40.4	—	—
Kansas	June 1967	25,856	13,616	52.7[2]	6,397	24.7	5,843	22.6
Kentucky	July 1966	35,823	28,976	80.9	6,847	19.1	—	—
Louisiana	July 1966	42,080	32,035	76.1	10,045	23.9	—	—
Maine	July 1966	11,282	7,828	69.4	3,454	30.6	—	—
Maryland	July 1966	64,088	26,693	41.7[2]	34,635	54.0	2,760	4.3
Massachusetts	Sept. 1966	192,888	96,336	49.9	64,717	33.6	31,836	16.5
Michigan	Oct. 1966	155,283	77,647	50.0	77,637	50.0	—	—
Minnesota	Jan. 1966	81,180	47,409	58.4	16,948	20.9	16,822	20.7
Missouri	Oct. 1967	19,930	12,957	65.0[2]	6,974	35.0	—	—
Montana	July 1967	5,796	3,710	64.0	1,122	19.4	964	16.6
Nebraska	July 1966	20,141	12,310	61.1	3,924	19.5	3,907	19.4
Nevada	July 1967	5,553	2,776	50.0	1,478	26.6	1,298	23.4
New Hampshire	July 1967	3,148	1,893	60.1	903	28.7	353	11.2
New Mexico	Dec. 1966	13,343	9,360	70.1	3,983	29.9	—	—
New York	May 1966	1,006,475	378,261	37.6[2]	340,479	33.8	287,734	28.6
North Dakota	Jan. 1966	10,346	7,309	70.6	2,605	25.2	431	4.2
Ohio	July 1966	72,762	38,442	52.8	34,320	47.2	—	—
Oklahoma	Jan. 1966	66,078	45,997	69.6	20,081	30.4	—	—
Oregon	July 1967	16,586	9,018	54.4	6,525	39.3	1,044	6.3
Pennsylvania	Jan. 1966	153,125	70,897	46.3[2]	71,273	46.5	10,956	7.2
Puerto Rico	Jan. 1966	39,411	18,793[3]	47.7	14,433	36.6	6,186	15.7
Rhode Island	July 1966	24,801	12,978	52.3	11,824	47.7	—	—
South Dakota	July 1967	6,602	4,838	73.3	1,764	26.7	—	—
Texas	Sept. 1967	100,110	79,868	79.8	20,242	20.2	—	—
Utah	July 1966	9,749	6,336	65.0	3,414	35.0	—	—
Vermont	July 1966	7,562	5,218	69.0	2,275	30.1	69	.9
Virgin Islands[4]	July 1966	900	450	50.0	450	50.0	—	—
Washington	July 1966	51,444	26,008	50.6[2]	25,435	49.4	—	—
West Virginia	July 1966	11,650	8,053	69.1[2]	3,597	30.9	—	—
Wisconsin	July 1966	114,899	64,934	56.5	27,367	23.8	22,598	19.7
Wyoming	July 1967	1,147	679	59.2	412	35.9	56	4.9

Source: Department of Health, Education, and Welfare, Social and Rehabilitation Service.

[1] Program initiated January 1966 under Public Law 89-97. States not shown had no program as of June 30, 1968.

[2] Percentage is less than the Federal medical assistance percentage because some payments to medical vendors are not subject to Federal financial participation.

[3] Amount less than that obtained by applying formula for computing Federal funds because of the statutory limitation on the aggregate amount of Federal funds that can be made available for a fiscal year.

[4] Partly estimated.

Source: HEW, *Source of Funds Expended for Public Assistance Payments*, Fiscal Year Ended June 30, 1968 [NCSS Report F-1 (FY 68)].

TABLE A-16—STATE AND LOCAL EXPENDITURE FOR PUBLIC ASSISTANCE FROM OWN REVENUE SOURCES AS A PERCENT OF STATE PERSONAL INCOME, 1958 AND 1968

State and Region	1968	1958	Percent increase or decrease (−)
United States	0.74	0.52	42.3
New England	.82	.68	20.6
* Maine	.46	.55	−16.4
* New Hampshire	.29	.44	−34.1
* Vermont	.51	.48	6.3
* Massachusetts	1.08	.86	25.6
* Rhode Island	.93	.68	36.8
* Connecticut	.57	.50	14.0
Mideast	1.11	.41	170.7
* New York	1.78	.54	229.6
New Jersey	.49	.26	88.5
* Pennsylvania	.58	.35	65.7
* Delaware	.37	.27	37.0
* Maryland	.61	.17	258.8
Dist. of Columbia	.42	.28	50.0
Great Lakes	.54	.52	3.8
* Michigan	.68	.69	−1.4
* Ohio	.45	.47	− 4.3
Indiana	.21	.29	−27.6
* Illinois	.60	.53	13.2
* Wisconsin	.64	.56	14.3
Plains	.52	.56	− 7.1
* Minnesota	.72	.73	− 1.4
* Iowa	.48	.54	−11.1
Missouri	.45	.56	−19.6
* North Dakota	.50	.68	−26.5
South Dakota	.40	.55	−27.3
* Nebraska	.36	.33	9.1
* Kansas	.55	.50	10.0
Southeast	.32	.39	−17.9
Virginia	.15	.11	36.4
* West Virginia	.41	.38	7.9
* Kentucky	.43	.34	26.5
Tennessee	.28	.28	--
North Carolina	.28	.30	− 6.7
South Carolina	.17	.28	−39.3
Georgia	.33	.43	−23.3
Florida	.19	.31	−38.7
Alabama	.42	.41	2.4
Mississippi	.34	.43	−20.9
* Louisiana	.69	1.12	−38.4
Arkansas	.56	.54	3.7
Southwest	.40	.45	−11.1
* Oklahoma	1.03	1.18	−12.7
* Texas	.28	.30	− 6.7
* New Mexico	.52	.37	40.5
Arizona	.23	.32	−28.1
Rocky Mountain	.61	.82	−25.6
* Montana	.57	.58	− 1.7
* Idaho	.33	.43	−23.3
* Wyoming	.42	.44	− 4.5
Colorado	.81	1.28	−36.7
* Utah	.45	.52	−13.5
Far West[1]	1.16	.76	52.6
* Washington	.65	1.09	−40.4
* Oregon	.46	.64	−28.1
* Nevada	.31	.28	10.7
* California	1.31	.73	79.5
Alaska	.39	.38	2.6
* Hawaii	.62	.34	82.4

*Medicaid program fully operative during fiscal 1968.

[1] Excluding Alaska and Hawaii.

Note: The 1968 percentages are fiscal year 1968 public assistance expenditures related to calendar year 1967 State personal income; for 1958, both expenditures and income are for calendar year 1958.

Source: Department of Health, Education, and Welfare, Social and Rehabilitation Service; and U.S. Department of Commerce, Office of Business Economics, *Survey of Current Business, August 1968.*

TABLE A-17–COMPARATIVE RATIOS OF PUBLIC ASSISTANCE PROGRAMS WITH POPULATION AND INCOME, SELECTED COUNTIES[1]

State	City – County	Region	Percent of county pop. residing in city, 1960	Income 1960	Pop., 1960	Welfare recipients	Welfare payments	Aged, blind, disabled recipients
						CITY PERCENT OF RESPECTIVE STATE TOTALS		
Calif.	San Francisco-San Francisco	P	100.0	5.5	4.7	4.9	5.5	5.2
Colo.	Denver-Denver	M	100.0	33.9	28.2	36.5	32.6	26.7
La.	New Orleans-Orleans	WSC	100.0	24.5	19.3	18.5	16.0	13.7
Md.	Baltimore City	SA	100.0	28.2	30.3	69.5	70.7	60.0
Mo.	St. Louis City	WNC	100.0	17.9	17.4	26.8	21.1	15.7
N.Y.	New York City	M.A.	100.0	17.9	17.7	33.2	33.5	25.8
Penna.	Philadelphia-Philadelphia	M.A.	100.0	47.8	46.4	72.5	75.2	66.2
Va.	Norfolk	SA	100.0	8.3	7.7	13.0	14.3	8.0
						COUNTY PERCENT OF RESPECTIVE STATE TOTALS		
Mass.	Boston-Suffolk	N.E.	88.1	14.3	15.4	34.4	37.4	26.9
Neb.	Omaha-Douglas	WNC	87.8	31.9	24.3	39.0	35.7	17.6
Tex.	El Paso-El Paso	WSC	88.1	3.1	3.3	1.7	1.2	0.9
Tex.	San Antonio-Bexar	WSC	85.5	6.7	7.2	7.8	6.5	5.3
Kans.	Wichita-Sedgwick	WNC	74.2	18.1	15.8	21.3	18.8	10.6
Minn.	St. Paul-Ramsay	WNC	74.2	15.3	12.4	16.9	17.0	9.3
Tenn.	Memphis-Shelby	SA	79.3	21.2	17.6	22.1	19.8	16.1
Tex.	Dallas-Dallas	WSC	71.4	13.6	9.9	7.9	7.0	6.3
Tex.	Houston-Harris	WSC	75.4	16.2	13.0	7.7	7.5	7.0
Wisc.	Milwaukee-Milwaukee	ENC	71.6	32.5	26.2	38.1	39.0	16.9
Ariz.	Phoenix-Maricopa	M	66.2	55.5	51.0	49.0	45.3	46.3
Fla.	Tampa-Hillsborough	SA	69.1	7.5	8.0	9.0	8.8	8.7
Ga.	Atlanta-Dekalb, Fulton	SA	60.0	30.4	20.6	17.2	15.6	12.0
Ill.	Chicago-Cook, DuPage	ENC	65.2	61.2	54.0	67.8	71.1	56.1
Ind.	Indianapolis-Marion	ENC	68.2	17.9	15.0	14.7	15.1	12.8
Ky.	Louisville-Jefferson	ESC	63.9	28.6	20.1	15.9	15.4	10.7
Mich.	Detroit-Wayne	ENC	62.6	36.8	34.1	40.5	46.1	37.4
Mo.	Kansas City-Clay, Jackson	WNC	67.0	19.8	16.4	11.1	9.8	8.3
Ohio	Columbus-Franklin	ENC	69.0	7.6	7.0	12.9	12.7	9.0
Ohio	Toledo-Lucas	ENC	69.6	5.1	4.7	6.6	6.4	4.5
Okla.	OklahomaCity-Canadian, Cleveland, Oklahoma	WSC	63.5	26.3	22.0	16.9	14.8	12.3
Okla.	Tulsa-Osage, Tulsa	WSC	69.1	21.0	16.3	10.7	9.8	8.5
Tex.	Fort Worth-Tarrant	WSC	66.1	6.6	5.6	4.3	4.2	4.1
Ala.	Birmingham-Jefferson	ESC	53.7	25.7	19.4	12.1	11.8	12.0
Calif.	San Diego-San Diego	P	55.5	6.2	6.6	4.1	4.3	4.8
Minn.	Minneapolis-Hennepin	WNC	57.3	33.1	24.7	27.5	32.8	24.5
	(Minneapolis)			(18.3)	(14.1)			
N.Y.	Buffalo-Erie	MA	50.0	5.8	6.3	4.0	3.6	4.4
N.Y.	Rochester-Monroe	MA	54.3	3.6	3.5	1.8	1.5	2.3
Ohio	Akron-Summit	ENC	56.5	5.7	5.3	4.8	4.7	3.7
Ohio	Cincinnati-Hamilton	ENC	58.2	9.9	8.9	12.1	11.6	10.0
Ohio	Cleveland-Cuyahoga	ENC	53.1	20.4	17.0	21.7	22.7	12.8
Ore.	Portland-Clackamas Multnomah	P	58.6	40.1	36.0	38.8	42.1	40.7
Wash.	Seattle-King	P	59.6	39.0	32.8	24.1	28.2	25.1
Hawaii	Honolulu-Honolulu	P	58.8	83.8	79.0	81.1	84.1	72.0
Calif.	Long Beach-Los Angeles	P	5.7	42.0	39.2	36.3	37.0	36.4
Calif.	Los Angeles-Los Angeles	P	41.1	42.0	39.2	36.3	37.0	36.4
Fla.	Miami-Dade	SA	31.1	22.0	18.9	14.7	13.6	12.3
N.J.	Jersey City-Hudson	MA	45.2	9.1	10.1	12.5	10.7	11.0
N.J.	Newark-Essex	MA	43.9	16.5	15.2	34.8	37.2	27.4
Ohio	Dayton-Montgomery	ENC	49.8	6.0	5.4	4.8	4.8	4.1
Penna.	Pittsburgh-Allegheny	MA	37.1	16.0	14.4	17.6	18.5	14.2
Calif.	Oakland-Alameda	P	40.4	5.8	5.8	5.5	5.7	5.3

TABLE A-17 (Cont'd)

State	City – County	Aged, blind disabled payments	AFDC recipients	AFDC payments	General assistance recipients	General assistance payments
				CITY PERCENT OF RESPECTIVE STATE TOTALS		
Calif.	San Francisco-San Francisco	5.6	4.2	4.9	12.2	17.7
Colo.	Denver-Denver	25.3	43.5	45.9	52.3	61.1
La.	New Orleans-Orleans	13.5	24.2	25.0	15.2	16.2
Md.	Baltimore City	63.2	70.2	71.4	83.2	84.8
Mo.	St. Louis City	15.2	39.1	39.0	17.0	18.4
N.Y.	New York City	70.1	73.4	75.9	77.0	77.0
Penna.	Philadelphia-Philadelphia	28.3	33.8	36.3	33.5	32.7
Va.	Norfolk	9.4	15.0	17.0	12.0	18.0
				COUNTY PERCENT OF RESPECTIVE STATE TOTALS		
Mass.	Boston-Suffolk	28.1	38.5	43.5	29.4	47.0
Neb.	Omaha-Douglas	17.5	50.0	51.5	—	—
Tex.	El Paso-El Paso	0.9	3.2	3.3	—	—
Tex.	San Antonio-Bexar	5.3	12.5	12.9	—	—
Kans.	Wichita-Sedgwick	10.3	27.0	29.1	21.8	17.4
Minn.	St. Paul-Ramsay	10.9	18.9	19.8	23.3	25.2
Tenn.	Memphis-Shelby	16.5	26.5	25.0	20.7	15.8
Tex.	Dallas-Dallas	8.2	10.9	10.7	—	—
Tex.	Houston-Harris	7.3	9.0	8.8	—	—
Wisc.	Milwaukee-Milwaukee	18.0	44.8	46.4	41.7	56.4
Ariz.	Phoenix-Maricopa	39.1	49.8	51.2	58.1[2]	59.3
Fla.	Tampa-Hillsborough	8.3	9.3	9.6	8.2	10.4
Ga.	Atlanta-Dekalb, Fulton	12.4	22.4	22.3	33.6	57.5
Ill.	Chicago-Cook, DuPage	59.7	72.2	74.6	61.2	77.3
Ind.	Indianapolis-Marion	14.6	15.5	15.4	—	—
Ky.	Louisville-Jefferson	11.7	19.7	21.3	—	—
Mich.	Detroit-Wayne	38.6	45.2	47.6	30.4	54.4
Mo.	Kansas City-Clay, Jackson	8.8	14.1	13.9	10.4	8.6
Ohio	Columbus-Franklin	9.4	12.4	13.0	19.5	20.3
Ohio	Toledo-Lucas	4.5	6.7	7.1	8.9	8.7
Okla.	Oklahoma City-Canadian, Cleveland, Oklahoma	11.8	21.4	22.3	33.9	34.0
Okla.	Tulsa-Osage, Tulsa	8.1	13.2	14.1	7.3	8.8
Tex.	Fort Worth-Tarrant	4.2	4.5	4.4	—	—
Ala.	Birmingham-Jefferson	11.7	12.5	12.7	14.7	18.6
Calif.	San Diego-San Diego	4.8	3.9	3.8	1.7	2.1
Minn.	Minneapolis-Hennepin	26.2	38.0	43.6	—	—
	(Minneapolis)	—	—	—	16.9	23.3
N.Y.	Buffalo-Erie	3.8	4.1	3.4	3.3	4.1
N.Y.	Rochester-Monroe	2.1	1.9	1.5	1.3	0.8
Ohio	Akron-Summit	3.7	5.0	5.3	5.6	4.7
Ohio	Cincinnati-Hamilton	10.0	11.7	11.2	15.9	17.5
Ohio	Cleveland-Cuyahoga	13.4	26.3	28.7	18.1	24.8
Ore.	Portland-Clackamas, Multnomah	37.4	39.8	41.6	28.8	45.7
Wash.	Seattle-King	27.0	22.0	23.3	32.0	41.8
Hawaii	Honolulu-Honolulu	80.0	82.4	85.0	83.1	88.5
Calif.	Long Beach-Los Angeles	37.3	35.8	35.9	52.6	54.8
Calif.	Los Angeles-Los Angeles	37.3	35.8	35.9	52.6	54.8
Fla.	Miami-Dade	12.0	16.7	16.3	10.8	20.8
N.J.	Jersey City-Hudson	9.9	10.4	9.5	20.4	19.5
N.J.	Newark-Essex	28.2	36.8	37.9	32.4	45.2
Ohio	Dayton-Montgomery	4.0	5.4	5.5	4.0	4.6
Penna.	Pittsburgh-Allegheny	13.4	17.8	19.5	22.5	26.3
Calif.	Oakland-Alameda	5.4	5.8	6.0	3.0	3.4

[1] Welfare recipients and payments as of February 1968.

[2] Based on cases; recipients data not available.

Source: U.S. Bureau of the Census, *County and City Data Book*, 1962 (A Statistical Abstract Supplement) and U.S. Department of Health, Education and Welfare, Social and Rehabilitation Service, *Recipients of Public Assistance Money Payments and Amounts of Such Payments, By Program, State and County, February 1968.*

TABLE A-16—AMOUNTS AND BASES FOR ALLOCATING STATE INTERGOVERNMENTAL PROGRAMS FOR PUBLIC WELFARE, 1967

(Amounts in thousands of dollars)

State	Total	Categorical assistance programs								Other programs				
		Total	Old-age assistance[1]	AFDC	Aid to the blind	Aid to the disabled	Medicaid	Other and combined	Total	Child welfare services	Public welfare administration	General relief assistance	Miscellaneous other
United States	2,899,130	2,460,118	634,575	960,114	23,760	234,991	517,154	89,512	439,012	25,180	152,756	176,598	83,602
Alabama	—	—	—	—	—	—	—	—	—	—	—	—	—
Alaska	—	—	—	—	—	—	—	—	—	—	—	—	—
Arizona	—	—	—	—	—	—	—	—	—	—	—	—	—
Arkansas	73	—	—	—	—	—	—	—	73	—	—	—	(N) 73
California	934,119	916,170	(LX) 336,732	(LX) 372,400	(LX) 18,061	(LX) 132,972	(LX) 56,005	—	17,949	(M) 2,614[2]	—	—	(LX) (3M's) 15,335
Colorado	74,812	66,853	(LX) 39,314	(LX) 19,366	(LX) 237	(LX) 5,312	—	(LX)(M) 2,624	7,959	—	(LX) 7,834	—	(M) 115
Connecticut	3,688	—	—	—	—	—	—	—	3,688	—	—	(LX) 3,688	—
Delaware	1,048	—	—	—	—	—	—	—	1,048	—	—	(LX) 1,048	—
Florida	—	—	—	—	—	—	—	—	—	—	—	—	—
Georgia	10,695	—	—	—	—	—	—	—	10,695	(LX) 1,204	(LX) 9,491	—	—
Hawaii	—	—	—	—	—	—	—	—	—	—	—	—	—
Idaho	—	—	—	—	—	—	—	—	—	—	—	—	—
Illinois	78,511	11,135	—	—	—	—	(M) 11,135	—	67,376	—	—	(E) 59,857	(LX) 7,519
Indiana	48,528	46,031	(LX) 23,399	(LX) 19,159	—	(LX) 3,062	—	(LX) (M) 411	2,497	(LX) 1,749	—	—	(LX) (M) 748
Iowa	1,664	—	—	—	—	—	—	—	1,664	—	(M) 299	—	(M) 1,365
Kansas	52,252	49,964	(LX) (LX) 30,937[3]	(LX) 17,117	(LX) (3)	(LX) (3)	—	(LX) 1,910	2,288	—	—	(LX) 2,288	—
Kentucky	—	—	—	—	—	—	—	—	—	—	—	—	—
Louisiana	—	—	—	—	—	—	—	—	—	—	—	—	—
Maine	700	—	—	—	—	—	—	—	700	—	—	(M) 700	—
Maryland	76,187	57,939	(LX) 5,720	(LX) 44,539	(LX) 264	(LX) 7,416	—	—	18,249	(LX) 4,581	—	(LX) 7,319	(LX) (LX) 6,333
Massachusetts	241,376	225,058	(LX) (S) 52,268	(LX) 66,854	—	(LX) 17,572	(LX) (LX) 88,344	—	16,317	—	—	(M) 16,317	—
Michigan	36,400	13,913	—	—	—	—	(LX) (M) 13,913	—	22,487	—	(M) 193	(LX) (N) 22,294	—
Minnesota	108,436	106,651	(LX) 18,795	(LX) 24,965	(LX) 681	(LX) 5,162	(LX) 57,048	—	1,785	—	(M) 154	—	(E) (M) 1,610
Mississippi	492	492	—	—	—	—	—	(M) 492	—	—	—	—	—
Missouri	707	—	—	—	—	—	—	—	707	—	—	—	(R) (LX) 707
Montana	165	—	—	—	—	—	—	—	165	—	—	(E) 165	—
Nebraska	33,427	31,460	(LX) 3,938	(LX) 7,771	(LX) 402	(LX) 2,585	(LX) 16,764	—	1,967	(LX) 263	—	—	(LX) (M) 1,280
Nevada	—	—	—	—	—	—	—	—	—	—	—	—	—
New Hampshire	55	55	—	—	—	—	—	(M) 55	—	—	—	—	—
New Jersey	107,820	100,732	(LX) (LX) 28,732	(LX) 61,820	—	(LX) 10,180	—	—	7,088	—	—	(E) 7,038	—
New Mexico	—	—	—	—	—	—	—	—	—	—	—	—	—
New York	815,145	665,290	(LX) 49,389	(LX) 257,982	(LX) 2,745	(LX) 27,985	(LX) 251,468	(LX) 75,721	149,855	(LX) 1,255	(LX) 125,090	—	(LX) 23,510
North Carolina	83,676	76,755	(LX) (E) 25,829	(LX) (E) 28,115	—	(LX) (E) 14,512	—	(LX) (M) (M) 8,299	6,921	—	(LX) 6,848	—	(LX) 73
North Dakota	771	—	—	—	—	—	—	—	771	—	(LX) (4)	(S) 771[4]	—
Ohio	54,038	—	—	—	—	—	—	—	54,038	(M) 1,812	—	(M) 47,191	(LX) (N) 5,035
Oklahoma	—	—	—	—	—	—	—	—	—	—	—	—	—
Oregon	1,449	58	(LX) 58	—	—	—	—	—	1,391	—	—	—	(P) (LX) 1,391
Pennsylvania	27,813	15,676	—	—	—	—	(M) 15,676	—	12,137	(LX) 11,702	—	—	(LX) 424
Rhode Island	4,711	—	—	—	—	—	—	—	4,711	—	—	(M) 4,711	—
South Carolina	—	—	—	—	—	—	—	—	—	—	—	—	—
South Dakota	110	—	—	—	—	—	—	—	110	—	—	(P) 110	—
Tennessee	137	—	—	—	—	—	—	—	137	—	—	—	—
Texas	—	—	—	—	—	—	—	—	—	—	—	—	—
Utah	—	—	—	—	—	—	—	—	—	—	—	—	—
Vermont	544	—	—	—	—	—	—	—	544	—	—	(M) 530	—
Virginia	38,830	30,680	(LX) 7,885	(LX) 16,931	(LX) 874	(LX) 4,978	—	—	8,150	—	(LX) 853	(LX) 1,754	(LX) (LX) 5,543
Washington	6,842	6,801	—	—	—	—	(NS) 6,801	—	41	—	—	—	—
West Virginia	1,994	—	—	—	—	—	—	—	1,994	—	(E) 1,994	—	—
Wisconsin	46,890	34,543	(LX) 9,805	(LX) 21,573	(LX) 453	(LX) 2,712	—	—	12,347	—	—	—	(M) (NS) (N) 12,195
Wyoming	5,025	3,862	(LX) (LX) 1,754	(LX) 1,522	(LX) 43	(LX) 543	—	—	1,163	—	(4)	(E) 817[4]	(LX) 346

Note: Detail does not necessarily add to totals due to exclusion of some minor items.

[1] For several States, includes medical assistance other than medicaid.
[2] Includes amounts for special services for aged.
[3] Old-age assistance includes amounts for aid to the blind and aid to disabled.
[4] General relief assistance includes amount for public welfare administration.

Source: U.S. Bureau of the Census, Census of Governments, 1967 Vol. 6, No. 4, *State Payments to Local Governments, and State Government Finances in 1967.*

KEY:
LX -State of State and Federal aid based on local expenditures.
M - State aid based on reimbursement of approved local expenditures.
R --State aid based on specified rate per person per time period.
E -State aid based on measure so as to equalize.
N -State aid based on measure of program need.
S -State aid distributed by State Department of Health.
P -State aid based on population.
NS -Basis of distribution not specified.

TABLE A-19—STATE AND LOCAL EXPENDITURE FOR HEALTH AND HOSPITALS, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1967

State and region	Total (millions)	Per capita	Percent financed from—		
			Federal aid	State funds	Local funds
United States	$6,646.6	$33.58	4.8	48.7	46.5
New England	366.7	32.37	4.9	71.2	23.8
Maine	19.1	19.60	7.9	77.0	15.2
New Hampshire	15.3	22.34	6.5	84.3	9.2
Vermont	8.4	20.16	14.3	83.3	2.4
Massachusetts	215.2	39.70	2.6	65.5	31.8
Rhode Island	28.5	31.61	16.9	77.5	5.6
Connecticut	80.2	27.40	4.9	79.3	15.8
Mideast	1,827.8	43.54	2.0	50.5	47.4
New York	1,128.1	61.52	0.9	47.6	51.5
New Jersey	207.0	29.55	2.7	39.1	58.2
Pennsylvania	281.3	24.19	4.0	76.7	19.3
Delaware	14.9	28.42	10.1	85.2	4.7
Maryland	130.3	35.37	4.4	59.3	36.2
Dist. of Columbia	66.2	81.83	3.8	---	96.2
Great Lakes	1,262.4	32.27	3.7	49.6	46.7
Michigan	358.8	41.79	4.1	44.4	51.5
Ohio	239.1	22.85	4.9	43.3	51.8
Indiana	150.1	30.02	3.5	51.1	45.4
Illinois	376.4	34.55	2.7	57.5	39.8
Wisconsin	138.0	32.93	3.4	50.8	45.8
Plains	466.7	29.25	5.3	45.8	48.9
Minnesota	118.8	33.16	4.7	46.7	48.6
Iowa	76.1	27.63	3.4	37.7	58.9
Missouri	139.9	30.39	4.9	45.7	49.5
North Dakota	10.8	16.88	13.0	77.8	9.3
South Dakota	10.0	14.82	8.0	60.0	32.0
Nebraska	42.0	29.24	7.1	30.7	62.1
Kansas	69.1	30.38	6.4	55.7	38.1
Southeast	1,260.6	29.27	8.5	46.0	45.6
Virginia	112.7	24.84	5.5	79.1	15.4
West Virginia	37.9	21.09	9.2	62.3	28.5
Kentucky	75.5	23.66	10.5	52.7	36.8
Tennessee	131.1	33.68	6.2	36.0	57.8
North Carolina	114.5	22.76	10.7	56.0	33.4
South Carolina	66.2	25.48	14.8	43.1	42.1
Georgia	179.8	39.87	6.1	32.9	61.0
Florida	251.6	41.97	6.8	27.5	65.7
Alabama	76.7	21.65	11.2	47.2	41.5
Mississippi	63.2	26.91	9.3	33.1	57.6
Louisiana	107.0	29.21	9.5	75.0	15.5
Arkansas	44.4	22.55	14.0	47.5	38.5
Southwest	348.9	21.79	9.0	43.3	47.7
Oklahoma	65.2	26.12	8.0	48.6	43.3
Texas	223.1	20.52	9.5	43.0	47.5
New Mexico	26.3	26.20	8.4	41.1	50.6
Arizona	34.3	20.99	8.5	36.2	55.4
Rocky Mountain	140.4	29.80	9.1	53.2	37.7
Montana	14.6	20.79	11.0	47.9	41.1
Idaho	22.1	31.56	10.0	34.8	54.8
Wyoming	14.0	44.53	16.4	35.0	49.3
Colorado	68.1	34.48	6.0	62.7	31.3
Utah	21.6	21.14	12.0	57.4	31.0
Far West[1]	933.6	37.82	3.7	40.9	55.4
Washington	75.3	24.39	6.5	57.8	35.7
Oregon	51.7	25.84	6.8	59.8	33.3
Nevada	24.0	54.06	5.8	15.4	78.8
California	782.6	40.85	3.2	38.8	58.0
Alaska	8.9	32.76	11.2	75.3	13.5
Hawaii	30.8	41.63	11.4	68.5	19.8

[1] Excluding Alaska and Hawaii.

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-20—AMOUNTS AND BASES FOR ALLOCATING STATE AID FOR PUBLIC HOSPITALS, 1967
(In thousands of dollars)

State	Total Intergovernmental	Hospital Construction	Tuberculosis Hospitals	Hospital Care For Indigents	Other Hospital Uses	Mental Patients	Crippled children	Cancer Control
United States	115,201	61,716	18,222	566	2,591	30,986	609	250
Alabama	6,725	LX 3,647	LX 2,938	M 140				
Alaska								
Arizona	677	LX 677						
Arkansas	1,406	LX 1,406						
California	10,254	LX 7,441	R 2,813					
Colorado	34	LX 34						
Connecticut								
Delaware								
Florida	2,352	LX 2,075			F 277			
Georgia	5,275	LX 5,275						
Hawaii	2,201	LX 21			K 2,180			
Idaho	374	LX 374						
Illinois	1,377	LX 419	R 958					
Indiana	1,430	LX 1,145	R 226					
Iowa	630	LX 630						
Kansas	1,569	LX 1,569						
Kentucky	2,261	LX 2,233	R 28					
Louisiana	3,293	LX 3,272						
Maine								
Maryland	362	LX 362						
Massachusetts	4,279		K 4,145		M 134			
Michigan	10,009	LX 2,527	R,C 1,886			R 5,596		
Minnesota	260	LX 192	R 23					
Mississippi	2,388	LX 2,388						
Missouri	2,051	LX 818	R 1,224	R 9				
Montana	44	LX 44						
Nebraska	746	LX 746						
Nevada	128	LX 128						
New Hampshire								
New Jersey	8,216	LX 158	M 174			LX 7,844		
New Mexico	213	LX 213						
New York	628	LX 559						
North Carolina	5,063	LX 4,898		M 165				
North Dakota								
Ohio	3,594	LX 2,233	R 1,361					
Oklahoma	1,441	LX 1,441						
Oregon	55	LX 55						
Pennsylvania	550	LX 550						
Rhode Island								
South Carolina	4,304	LX 3,794	R 55				M 205	M 250

Table 20 (cont'd)

State	Total Intergovern-mental	Hospital Construction	Tuberculosis Hospitals	Hospital Care For Indigents	Other Hospital Uses	Mental Patients	Crippled Children	Cancer Control
United States								
South Dakota	126	LX 126						
Tennessee	3,180	LX 2,515		M 252			S 404	
Texas	3,657	LX 3,657						
Utah	444	LX 444						
Vermont								
Virginia	1,209	LX 1,209						
Washington	1,336	LX 137	R,E 1,199					
West Virginia	556	LX 556						
Wisconsin	18,990	LX 252	R 1,192			LX 17,546		
Wyoming	1,514	LX 1,498						

Note: Detail does not necessarily add to totals due to exclusion of some minor items.
KEY:
LX -State or State and Federal aid based on local expenditures.
M -State aid based on reimbursement of approved local expenditures.
R -State aid based on specified rate per person per time period.
F -State aid is a flat grant.
C -State aid based on case loads.
S -State aid distributed by State Department of Public Health.
E -State aid based on a measure so as to equalize.
K Contract basis.
Source: U.S. Bureau of the Census, Census of Governments, 1967 Vol. 6, No. 4, *State Payments to Local Governments*, and *State Government Finances in 1967*.

TABLE A-21–AMOUNTS AND BASES FOR ALLOCATING
STATE AID FOR PUBLIC HEALTH, 1967
(In thousands of dollars)

	Total inter-govern-mental	County or local health work	Care of tubercu-losis patients	Public health assistance	Crippled children	Handi-capped children	Mental health	Nursing aid	Other public health
U.S.	184,631	83,408	1,182	7,287	11,004	2,108	64,662	317	13,330
Ala.	1,800	(S) 1,534							
Alas.	—						(LX) 266		
Ariz.	646	(M) 646							
Ark.	—								
Calif.	39,800			(P) 7,287	(E) 9,997	(LX) 2,108	(LX),(M) 8,827		(M) 1,189
Colo.	900	(LX) 829							
Conn.	93	(LX) 46						(F) 47	
Dela.	—								
Fla.	1,650								(LX) 1,650
Ga.	5,600	(S,LX) 5,522							
Hawaii	—								
Id.	—								
Ill.	2,231	(S,LX) 993					(S) 1,283		
Ind.	2,392	(LX) 749			(LX) 643		(LX) 1,000		
Ia.	495						(R) 495		
Kan.	309	(S,LX) 309							
Ky.	2,973	(S,LX) 2,973							
La.	1,867	(LX) 1,867							
Me.	—								
Md.	1,152		(M) 1,152						
Mass.	100								
Mich.	7,097	(LX) (S) 2,948					(LX) 4,149		
Minn.	271	(S) 124	(P) 30					(R) 117	
Miss.	—								
Mo.	672	(M) 672							
Mont.	—								
Neb.	521	(M) 521							
Nev.	270						(M) 142		(P) 128
N.H.	11						(LX) 11		
N.J.	3,200	(E) 1,035					(M) 1,734		(N.S.) 162
N.M.	—								
N.Y.	83,501	(LX) 46,965					(LX) 34,184		(LX) 2,352 (S) 312
N.C.	3,029	(S) 2,717							
N.D.	178	(S) 178							
Ohio	2,400	(LX) 2,265							
Okla.	—								
Ore.	1,300	(LX) 397					(LX) 776		
Pa.	10,800	(LX) 3,247							(S) 7,287;(LX) 185
R.I.	69	(LX) 69							
S.C.	2,115	(F,P) 2,115							
S.D.	65						(M) 65		
Tenn.	—								
Tex.	100								
Utah	284	(S) 69					(LX) 215		
Vt.	—								
Va.	2,413	(M) 2,368							(LX) 45
Wash.	1,700	(NS) 1,700							
W. Va.	550	(S) 550							
Wisc.	1,991				(LX) 364		(LX) 1,560	(R) 67	
Wyo.	86							(M) 86	

Note: Detail does not necessarily add to totals due to exclusion of some minor items.
KEY:
LX State or State and Federal Aid based on local expenditure.
M -State aid based on reimbursement of approved local expenditures.
R -State aid based on specified rate per person per time period.
F -State aid is a flat grant.
E -State aid is based on equalization formula.
S -State aid distributed by State Department of Public Health.
P -State aid based on population.
NS -Distribution factors not specified.
Source: U.S. Bureau of the Census, Census of Governments, 1967 Vol. 6, No. 4, *State Payments to Local Governments*, and *State Government Finances in 1967*.

Chapter V

Financing Highways—The Urban Requirement

The construction and maintenance of highways and streets is the second most costly domestic governmental function—next to education. Total public highway expenditure amounted to about $14 billion in fiscal 1967 with virtually all of this spending actually done by State and local governments. Like public education and welfare, however, the building of public roads involves extensive intergovernmental financial participation. By their very nature, road facilities are designed to connect geographic areas. As such, this function is marked by "benefit-spillovers"—as the benefits of such facilities extend beyond the areas in which the facility is located. These spillover effects also differ markedly among the several classifications of road systems—being substantially greater for interstate than for farm-to-market roads.

HISTORICAL TRENDS OF STATE HIGHWAY AID

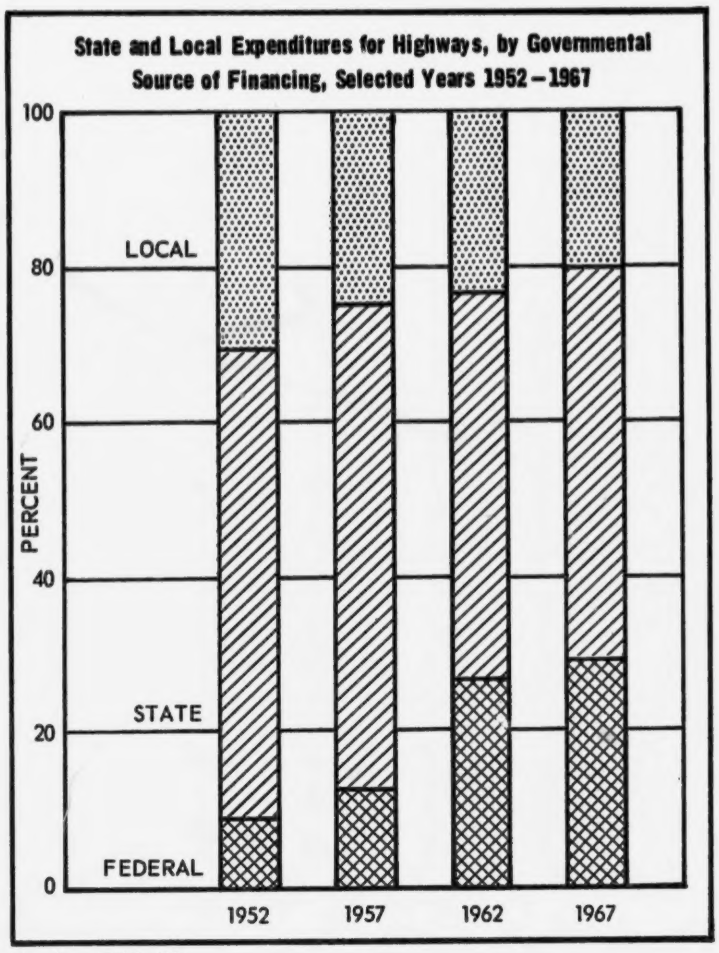
Significant Federal Government participation in the highway program goes back to 1916 when the Federal aid highway program was inaugurated. Prior to that, roads and streets were left almost entirely to counties and cities. Thus, in 1902 States provided only 3 percent of the $175 million spent on highways. By 1913, the State share had risen to 7 percent. In 1922, with the Federal aid highway program underway, Federal aid furnished 7 percent of the $1.3 billion highway bill and the States were putting up almost one-fourth the non-federal cost.

Heavy State financial involvement in highway construction and maintenance started with the Federal aid program, which from the beginning required dollar for dollar matching. In order to administer the Federal-State program, each State had to establish a highway department; to finance their share of the costs the States began to levy motor fuel taxes in 1919.* By 1929 all States were collecting such taxes (Hawaii adopted a gasoline tax in 1932 and Alaska in 1946).

The use of Federal aid funds was restricted to the development of State primary highway systems until the mid-1930's when the program was broadened to include secondary roads and the urban extensions of State highways. This Federal aid program, now known as the "regular" or "A-B-C program," has generally supported less than 12 percent of State and local highway expenditure until establishment of the massive interstate highway program in 1956. By 1967, Federal highway aid amounted to about $4 billion ($1 billion "regular" and $3 billion interstate), almost 30 percent of total expenditure for highway construction and maintenance (figure 17 and table 24). Federal highway aid continued at

FIGURE 17

THE FEDERAL SHARE OF HIGHWAY FINANCING HAS BEEN GROWING STEADILY



Source: Table 23.

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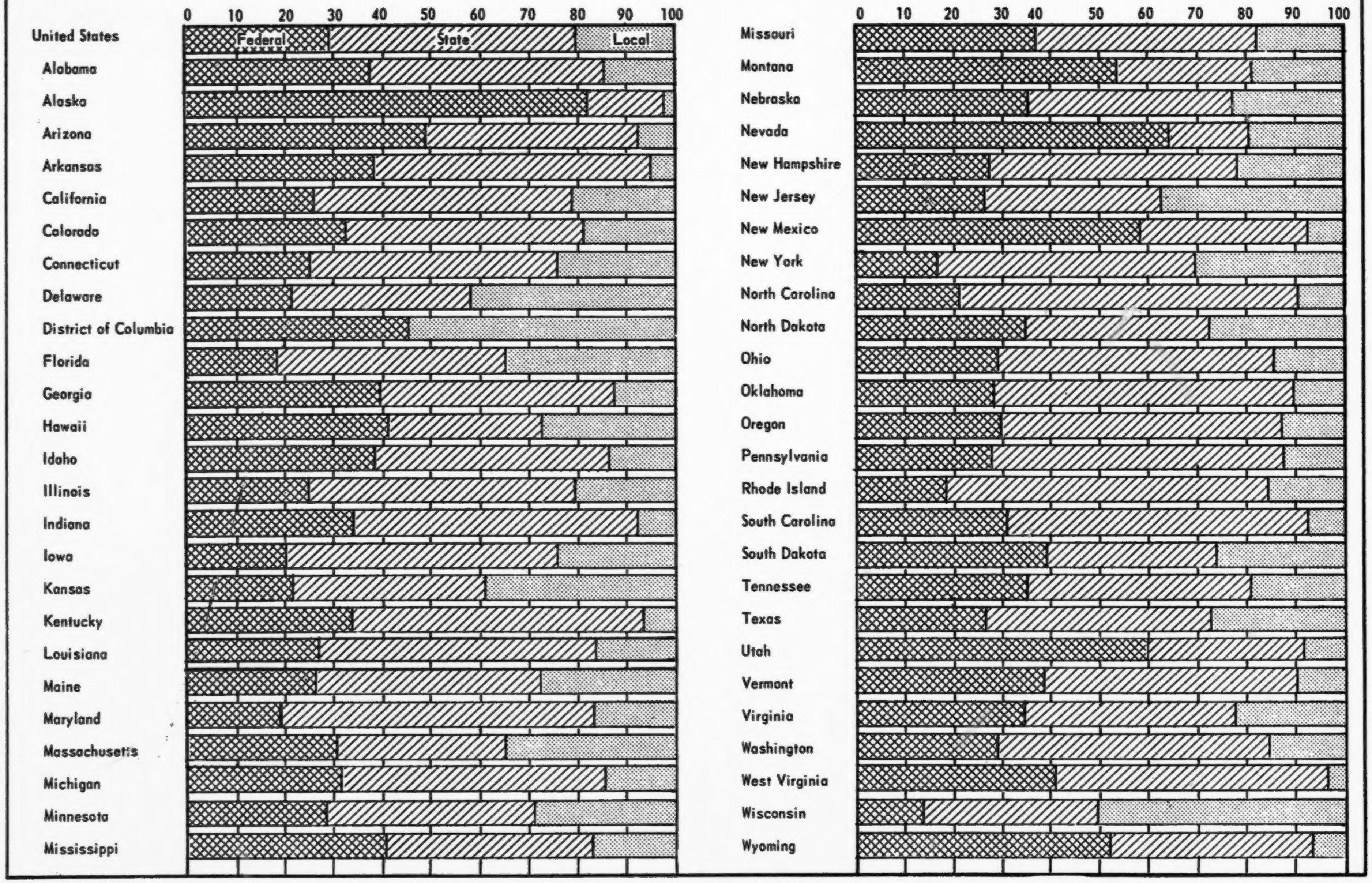
*All States were already registering motor vehicles by 1914, but this was primarily a regulatory rather than a revenue measure.

FIGURE 18
THE HIGHWAY FINANCING PATTERN VARIES CONSIDERABLY AMONG THE STATES

FIG 18

State and Local Expenditures for Highways, by Governmental Source of Financing, 1967



Source: Table A-22.

TABLE 24–STATE AND LOCAL EXPENDITURE FOR HIGHWAYS, BY GOVERNMENTAL SOURCE OF FINANCING, SELECTED YEARS, 1922-1967
(Dollar amounts in millions)

Year[1]	Total expenditure								Expenditure from own sources		
	Amount	Percent financed from–			State expenditure		Local direct expenditure		Amount	Percent financed from	
		Federal aid	State funds	Local funds	Direct[2]	Intergovernmental	Amount	Percent financed from State aid		State funds	Local funds
1922	$ 1,294	7.1%	21.7%	71.2%	$ 373	$ 70	$ 991	7.1%	$1,202	23.4%	76.6%
1927	1,809	4.6	34.7	60.7	514	197	1,295	15.2	1,726	36.4	63.6
1932	1,741	11.0	50.6	38.4	1,072	229	898	25.5	1,550	56.8	43.2
1942	1,490	11.4	64.4	24.2	790	344	700	49.1	1,320	72.7	27.3
1948	3,036	10.0	55.9	34.1	1,510	507	1,526	33.2	2,731	62.1	37.9
1952	4,650	9.1	60.7	31.2	2,556	728	2,094	34.8	4,236	66.6	33.4
1957	7,848	12.5	62.3	25.2	4,894	1,086	2,954	36.7	6,870	71.2	28.8
1962	10,357	26.7	49.3	24.0	6,635	1,327	3,722	35.7	7,592	67.2	32.8
1967	13,956	29.1	50.2	20.7	9,423	1,861	4,533	41.1	9,899	70.8	29.2

Note: Excludes expenditure for highway debt service and highway law enforcement.

[1] Data for 1957 and subsequent years include Alaska and Hawaii, which are excluded for prior years.

[2] All Federal aid highway funds assumed to be spent directly by the State government (except in the District of Columbia).

about the $4 billion level in fiscal 1968 and 1969 and is budgeted at $4.5 billion for fiscal 1970.

The States' share of non-federal highway financing grew steadily until the beginning of World War II, dropped during the War, and since 1952 has fluctuated between 67 and 71 percent of State and local spending for highway and street construction and maintenance. In 1967, the States financed 71 percent of the $10 billion non-federally financed highway bill. Of the $7 billion the States spent from their own sources, $1.9 billion was in the form of financial aid which comprised over two-fifths of all local highway spending, up from one-third in 1948.

There is a marked diversity among the States in their 1967 highway financing patterns (figure 18 and table A-22*). The proportion of Federal financing ranged from less than 20 percent in five states to 50 percent or more in the sparsely settled Mountain States and Alaska. There was also considerable variation in the State-local division of responsibility for highway financing. Those States (mainly in the South) that have taken over administration of all or most of the secondary system financed over four-fifths of the non-federal costs, while others (e.g., Delaware, Kansas, Massachusetts, Nevada, New Jersey and Wisconsin) left a considerable portion of street and road financing to local governments.

By the same token, the proportion of State highway aid also differs among States, ranging from less than five percent of local expenditure in seven States (three of which paid no aid) to over 50 percent in seventeen.

STATE HIGHWAY PROGRAMS

States pursue differing approaches in aiding their localities to build and maintain streets and highways. In a few States, responsibility for construction and maintenance of rural highways is retained at the State level. All States construct extensions of the State highway systems in municipalities and all States except Alaska, Hawaii and West Virginia make grant-in-aid payments to their localities, almost entirely in the form of shared highway-user revenue.

Grant-In-Aid Allocation Formulas

Highway aid payments are allocated among local governments on a formula basis. Usually these formulas are related to the disposition of State highway-user revenues: a portion (generally in percentage terms) to the State highway fund; part to rural local governments (counties and townships); and part to municipalities. To determine how much goes to each local government, States may use a combination of factors, such as road mileage, area, gasoline sales, motor vehicle registrations, and population–all of which are designed to serve as measures of local "needs" for highways. Generally the first four factors are used to apportion funds for rural roads while population is used to apportion funds among municipalities (table A-23). An additional measure of local "needs"–and one that is rarely included in allocation formulas–is a specific cost factor; also generally absent is a measure of local fiscal capacity to support public roads.

Rural vs. urban recipients. Sharp differences mark both the magnitude of State highway aid and the distribution of such funds between rural and urban recipients. Thus, with a U.S. average per capita "State aid for highways" payment of $9.45 in 1967, eight States (including Alaska, Hawaii and West Virginia with no aid payments) paid less than $1 to their local governments and 24 States paid out more than $10. Iowa and Wisconsin made the largest per capita aid payments–$23 and $22 respectively (table A-24).

Of the $1.9 billion the States transferred to their local governments in fiscal 1967, $1.2 billion, about two-thirds, went to counties and townships largely for rural roads, and $614 million, one-third, was paid to municipalities.

In eight States all or virtually all the highway aid was paid to counties, although Alabama–one of those eight States–recently revised its allocation formula to provide a small share to its municipalities. On the other hand, in Delaware and North Carolina all or substantially all State highway aid was paid to municipalities, while Virginia paid over three-fourths of its highway aid to cities. These three States administer all or most of the county road systems, as does West Virginia, which together with

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*Appendix tables appear at the end of each chapter.

Alaska and Hawaii* shares no highway-user revenue with local governments.

Townships received substantial amounts of highway aid in a dozen States, including all six New England States where those governments perform both urban and rural functions. In the other six States, highway aid to townships is primarily for rural roads.

A somewhat more precise distinction between rural and urban roads and streets is made by the U.S. Bureau of Public Roads. That agency distinguishes certain counties as urban and also classifies townships in New England, New Jersey, New York and Pennsylvania as rural or urban on the basis of population density.** Nonetheless, the general picture is one of rural dominance, with only 35.8 percent of the State highway aid going for urban streets in calendar 1967 (table A-25).

There has, however, been some diminution of this rural dominance. Both Census and Public Roads data reveal significant increases since 1962 in urban highway aid, with outstanding upward shifts in certain States (for example, Arkansas, California and Georgia). Nationally, aid for urban streets rose considerably more between 1962 and 1967 than did aid for rural roads–up 70 percent for the former and only 30 percent for the latter. As a result, the proportion of State highway aid for urban streets rose from 30 percent to 36 percent over the five-year period.

Direct State Expenditure on Rural and Urban Highways

In addition to transferring the $1.9 billion of highway aid to their counties and municipalities, the States themselves paid $9.4 billion for highway construction and maintenance in fiscal 1967–about two-thirds of all highway expenditures. Over $5 billion represented State construction and maintenance of the State primary roads, including each State's portion of the interstate highway system. In addition, the States spent directly some $580 million on secondary (rural) roads under their control and about $350 million on rural roads controlled by counties and townships. They also spent $2.7 billion for construction and maintenance of municipal extensions of State highways and another $50 million on locally controlled municipal streets.

RURAL DOMINATION OF STATE HIGHWAY PROGRAMS

The modern highway program was started in 1916 as a move to "get the farmer out of the mud." Most of the paved roads at that time were in cities and towns and extended along Main Street into the adjacent rural area for a short distance, where they terminated abruptly.[1] It was already obvious that the automobile would become the major means of transportation and that farms and cities would have to be connected by a new road system. Thus, the highway program was started in order to develop a system of rural roads and, in fact, the Federal Aid Road Act of 1916 placed the responsibility for administering the program in the U. S. Department of Agriculture.

As noted, there has been some shift in the allocation of State highway aid funds toward urban areas, especially in the past decade during which urban transportation needs have received greater Federal and State emphasis. Nevertheless, urban highway needs still far exceed the financial assistance they receive. On the basis of 1958-59 data, Philip H. Burch, Jr. found the urban proportion of State highway aid to be 23.5 percent, less than half the estimated "percent that local urban highway costs should be of total local highway costs."[2] Looking at *total* State highway expenditure (direct and State aid), Burch found that about one-fourth was spent on State and local urban arteries in the three year period 1957-1959, estimating the "probable proper percent of State highway funds that should be expended on State and local urban arteries" at 44.7 percent.[3] A similar conclusion can be drawn from current highway statistics. Of total State expenditure for highway construction, maintenance and grants in 1967, 31.4 percent was for urban streets and 68.6 percent for rural roads (figure 19 and table 25). Yet half of all motor vehicle travel in 1967 (an estimated 483.8 billion vehicle miles out of a total of 965.1 billion) was on urban streets.

The number of vehicle miles travelled, however, is only one of the relevant factors in measuring the urban-rural allocation imbalance. The concentration of usage is another–the same volume of traffic is carried on urban streets (with less than 15 percent of the total street and road mileage) as on all rural roads. The much higher cost of acquiring rights-of-way and the costs involved in sub-street facilities such as sewers and utility conduits stand out as other important cost considerations. The U.S. Bureau of Public Roads estimates, in connection with construction of the interstate highway system, that a mile of urban extension has cost four to five times as much as a mile of rural road.

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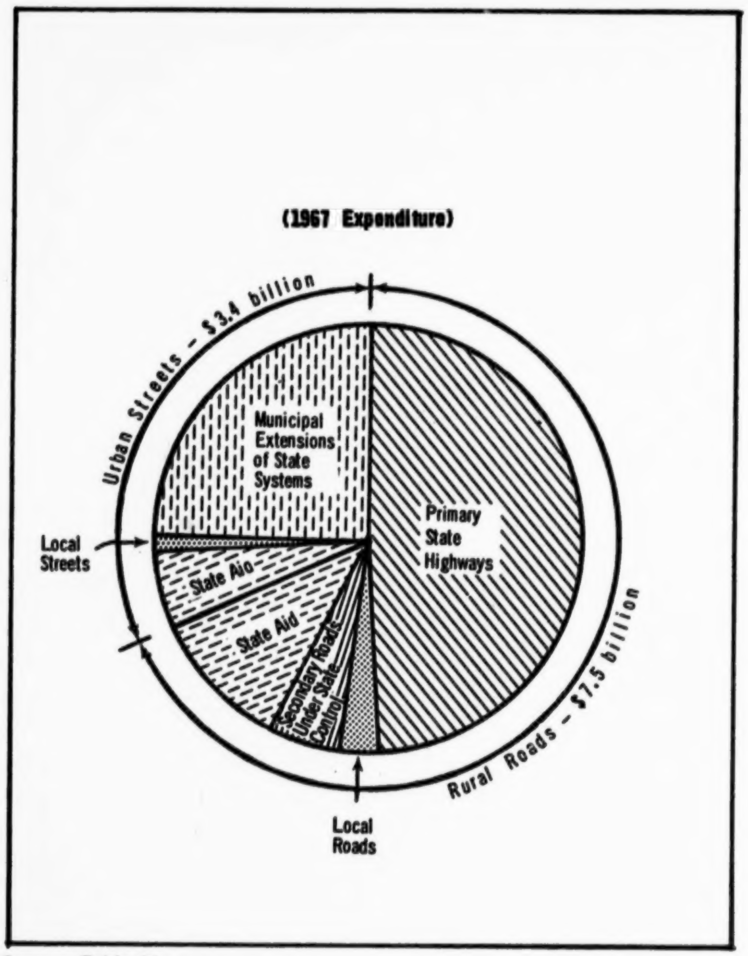
*In Hawaii, however, the registration of motor vehicles is a local government function, and the total proceeds from motor vehicle registration fees is retained locally.

**There are some conceptual differences between "State intergovernmental expenditure for highways" as reported in Census Bureau government finance data and "State grants-in-aid for local roads and streets" as reported in the *Highway Statistics* series of the Bureau of Public Roads. As a result, although the totals are almost identical there are significant differences for individual States. The *Highway Statistics* reports, for example, include retained shares of locally collected State motor vehicle registration fees with State aid; the Census data count such amounts(which are substantial in some States, e.g., Hawaii, Montana and Texas) as local taxes. On the other hand, Census data report as State intergovernmental expenditure payments to local governments which act as contractors for the States, while the public roads data count such payments as direct State expenditure.

FIGURE 19

RURAL ROADS DOMINATE STATE EXPENDITURE



Source: Table 24.

TABLE 25–TOTAL STATE EXPENDITURE FOR CONSTRUCTION, MAINTENANCE AND STATE AID FOR RURAL AND URBAN HIGHWAYS, 1967
(Dollar amounts in millions)

Item	Amount	% distribution
Rural highways		
Direct State expenditure on:		
Primary State highways	$ 5,345.1	49.0
Secondary roads under State control	582.6	5.3
Local roads	346.8	3.2
Total direct	6,274.5	57.6
State aid	1,199.9	11.0
Total rural	7,474.4	68.6
Urban streets		
Direct State expenditure on:		
Municipal extensions of State systems	2,709.5	24.9
Local streets[1]	49.7	0.5
Total direct	2,759.2	25.3
State aid	668.7	6.1
Total urban	3,427.9	31.4
Total State expenditure	$10,902.3	100.0

[1] Excludes District of Columbia.
Source: U.S. Bureau of Public Roads, *Highway Statistics 1967*, Tables SF-4 and SF-6.

A recent report of the Senate Committee on Public Works took note of the rural-urban highway imbalance, stating:

> From as far back as 1920 to the present, about half the motor vehicle miles of travel have been driven in urban areas; but during this entire period the proportion of total Federal and State investment in urban highway improvements has been considerably less than this. Vehicle miles of travel alone is not an entirely valid measure of relative need for highway investments, of course. But it is a reasonably satisfactory indicator of the tendency, over the years, to allow deficiencies in the urban highway plant to accumulate more rapidly than in rural areas and also for such deficiencies to be corrected using other than highway user revenue.[4]

The Alabama allocation formula for distribution of motor fuel tax receipts illustrates this rural dominance. Before revising its formula in 1967, Alabama allotted a total of $62,500 to all its cities and towns and divided 3/7 of the 7-cent tax equally among its counties. Under this formula the cities received $62.5 *thousand* and the counties received $54.4 *million* in 1966. Under the revised formula, the counties are allocated 55 percent of the tax proceeds (after certain deductions), and of this amount, 45 percent is divided equally among the counties and 55 percent in proportion to population. Ten percent of each county's share is then allocated among its cities and towns in proportion to population.[5] Roughly, this works out to about 50 percent of the net proceeds for rural roads and 5 percent for urban streets (see table A-23). In calendar year 1967, the counties were paid $44.2 million and the cities and towns received $1.1 million, reflecting in part the provisions of the new allocation.[6] Even on a *straight mileage* basis, municipal streets represent about 15 percent of the road mileage under local control in Alabama (9,148 of a total of 55,573 miles).[7]

State-Local Division of Responsibility for Rural and Urban Highways

States have not only provided a disproportionate share of their intergovernmental highway aid to rural areas, they have also directly assumed a greater responsibility for provision of rural than of urban highway facilities. This reflects more than a rural-oriented bias, however, as many of the sparsely settled and poor jurisdictions simply cannot provide the requisite road facilities at "efficient" costs. Thus, to avoid duplication of administrative facilities and to secure more intensive use of capital equipment, the larger unit of State government has taken over this functional responsibility. States now assume responsibility for 90 percent of the expenditure (from both Federal and State funds) for construction and maintenance of rural roads in contrast to about three-fourths of the spending on urban streets (table 26).

TABLE 26–STATE AND LOCAL CONSTRUCTION AND MAINTENANCE EXPENDITURE FOR RURAL AND URBAN HIGHWAYS, 1967 AND 1969[1]
(In millions of dollars)

Item	Rural 1967	Rural 1969 (forecast)	Urban 1967	Urban 1969 (forecast)
State expenditure[2]				
Direct expenditure	6,491	7,088	2,810	3,197
State aid	1,201	1,287	692	823
Less receipts from localities	– 135	– 140	– 71	– 90
Net State expenditure	7,557	8,235	3,431	3,930
Local expenditure				
Counties and townships:				
Direct expenditure	1,861	2,028	89	88
Payments to States	135	140	—	—
Payments to municipalities			33	34
Less State aid	–1,201	–1,287	—	—
Less municipal aid	– 2	– 2	—	—
Net expenditure, counties and townships	793	879	122	122
Municipalities				
Direct expenditure	—	—	1,755	1,857
Payments to States	—	—	71	90
Payments to counties and townships	2	2		
Less State aid	—	—	– 692	– 823
Less county and township aid	—	—	– 33	– 34
Net municipal expenditure	2	2	1,101	1,090
Net local expenditure	795	891	1,223	1,212
Total State and local	8,352	9,126	4,654	5,142
%State	90.5	90.2	73.7	76.4
%Local	9.5	9.8	26.3	23.6

[1] State data are generally for calendar years; local data for fiscal years ending in various months of the calendar year.

[2] Includes District of Columbia.

Source: U.S. Bureau of Public Roads, Tables HF-1 and HF-2, November 1968.

In addition to administering the State primary system, which is entirely rural except for the urban extensions, and handling the construction of the interstate system (also predominately rural), many of the States have been taking increasingly direct responsibility for construction and maintenance of secondary roads. State roadbuilding in urban areas, however, has been confined to the costly urban extensions to the State primary and interstate systems. While State highway departments rarely build or repair a city street not on the State system, States are heavily involved in the farm-to-market roads of counties and rural townships. Gradually, however, the States have been increasing their share of urban street financing–from 74 percent in 1967 to an estimated 76 percent for 1969.

Presently about one-fifth of the total road and street mileage in the United States is administered by the State highway agencies (table 27). This includes a little over 500,000 miles in the State primary and secondary systems, about 140,000 miles of county roads under State control and almost 70,000 miles of municipal extensions of State primary and secondary systems. This leaves 2,320,000 miles of (mainly) rural roads and 450,000 of city streets under local control.

TABLE 27–ROAD AND STREET MILEAGE UNDER STATE AND LOCAL GOVERNMENT CONTROL BY TYPE OF SYSTEM, 1967

System	Number of Miles (000)
Under State Control:	
State primary systems	424
State secondary systems	112
County roads under State control	139
Rural mileage	675
Municipal extensions of State primary systems	54
Municipal extensions of State secondary systems	14
Municipal mileage	68
Total under State control[1]	743
Under Local Control:	
County roads	1,729
Town and township roads	516
Other local	76
Rural mileage	2,321
Local city streets (municipal mileage)	453
Total under local control	2,774
Total Mileage[1]	3,517

[1] Excludes roads in State parks, forests, reservations, etc.

Source: U.S. Bureau of Public Roads, *Highway Statistics, 1967*, Table M-2.

How much of this vast amount of developed and undeveloped mileage should be taken over by State highway departments, how much of the mileage now controlled by townships should be taken over by counties, and how much of the mileage in urban areas should be assigned to groups of counties and municipalities in metropolitan areas are as yet unresolved questions. Economic considerations of efficiency and local fiscal ability must be balanced against political considerations of "home rule." In some States, for example, townships still exist for the sole purpose of maintaining rural roads. Close legislative examination might well indicate that transfer of responsibility for such roads to the counties would result in more effective road management. Those States that assumed control of all county roads (mainly to help the counties out of a depression situation in the 1930's) may find it propitious to return portions to the counties.

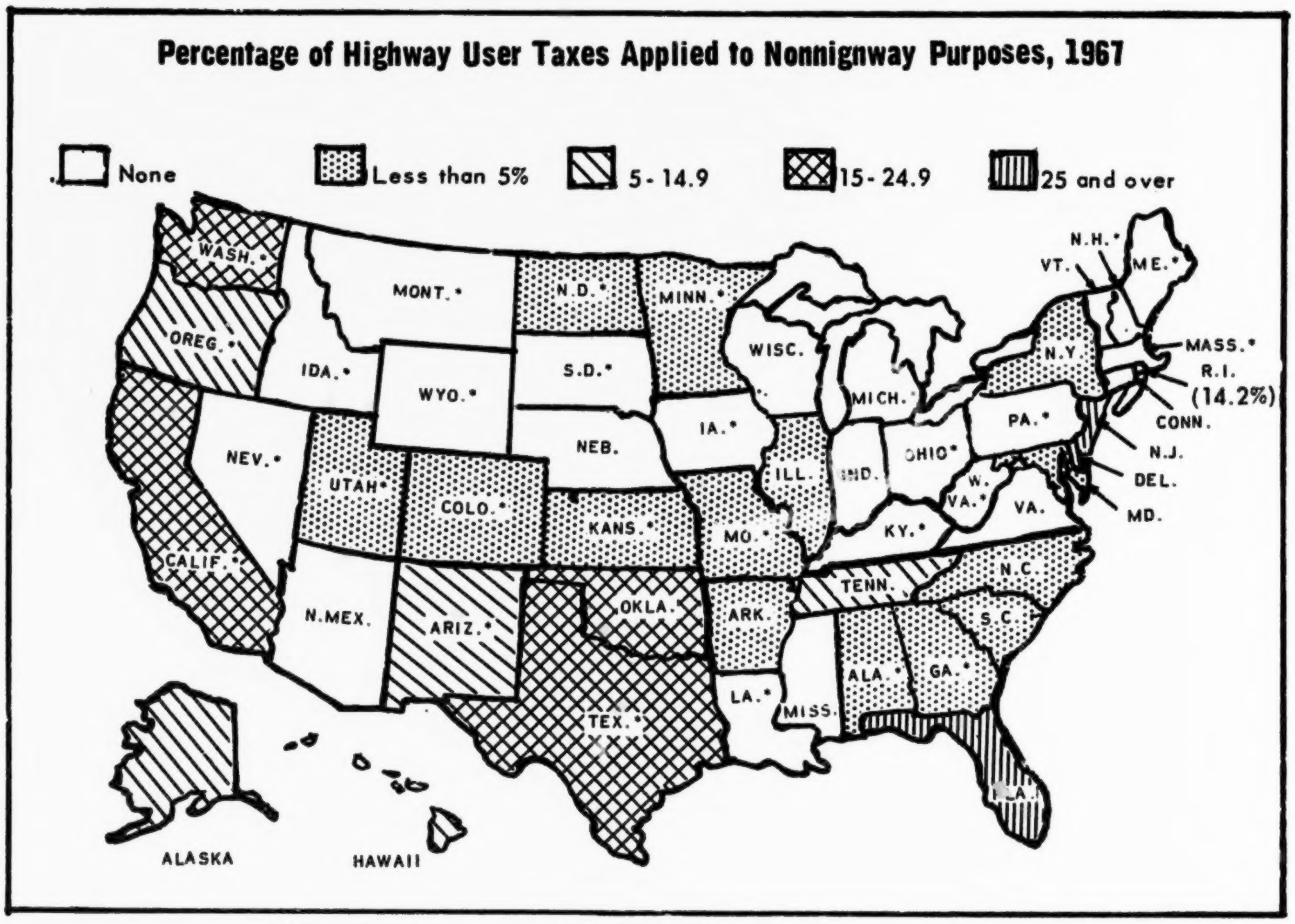
Determining the allocation of highway responsibility between a State and its local government requires a functional classification of the highway network. Although no standard highway classification framework presently exists, one is being developed by the Federal Highway Administration in cooperation with the State highway departments. When completed (a report is due to Congress early in 1970), the national classification should provide a workable basis for States to assume or to share their responsibility for administering highways, roads and streets.

EARMARKING STATE HIGHWAY-USER REVENUE: THE "ANTI-DIVERSION ISSUE"

Highway-user revenues–motor fuel taxes, automobile registration fees, truck licenses and the like–are dedicated to highway purposes in most States. Twenty-eight States have seared into their constitutions the requirement that receipts from all or some of those sources must be placed in a special highway fund–the so-called "anti-diversion amendments." Most of the other States have statutory earmarking of highway-user funds. The champions of anti-diversion, however, have not scored a complete victory. Alaska, Delaware, New Jersey, New York, and Rhode Island place all their motor fuel tax and motor vehicle registration revenues into general funds, thereby subjecting these funds to the same legisla-

FIGURE 20

SOME STATES DIVERT CONSIDERABLE
PORTIONS OF HIGHWAY TAXES


Percentage of Highway User Taxes Applied to Nonnignway Purposes, 1967
None
Less than 5%
5-14.9
15-24.9
25 and over
WASH.*
OREG.*
CALIF.*
NEV.*
IDA.*
MONT.*
WYO.*
UTAH*
COLO.*
ARIZ.*
N.MEX.
N.D.*
S.D.*
NEB.
KANS.*
OKLA.*
TEX.*
MINN.*
IA.*
MO.*
ARK.
LA.*
WISC.
ILL.
MICH.
IND.
OHIO*
KY.*
TENN.
MISS.
ALA.
GA.*
FLA.
S.C.
N.C.
VA.
W.VA.*
PA.*
N.Y.
VT.
N.H.*
ME.*
MASS.*
R.I.
(14.2%)
CONN.
N.J.
DEL.
MD.
ALASKA
HAWAII

* States with constitutional anti-diversion provisions.

Source: Table A-26.

tive appropriation process as other general fund revenues.

Less than 10 percent of the $7.5 million of State motor fuel tax and motor vehicle registration fees available for distribution (after payment of collection and administration costs) went for non-highway purposes in 1967 (figure 20 and table A-26). The five States that provide for general fund appropriations accounted for 20 percent of the $640 million so diverted. California, Florida, Texas and Washington accounted for most of the remainder. Twelve of the 28 States with anti--diversion constitutional provisions (including California, Texas and Washington) spent some highway-user revenues for nonhighway purposes, although aside from the three States mentioned above, the amounts were nominal.

The pressure for earmarking highway-user revenue came, understandably, from motor vehicle owners who believed that this was the only way to assure the development of a good road system. As the use of the automobile increased by leaps and bounds, the demand for earmarking became almost irresistable. These pressures had their effect—the "dedicated" funds helped underwrite the cost of constructing and maintaining the most extensive (and expensive) highway network in the world.

Most of the State anti-diversion constitutional amendments were adopted after enactment of the Hayden-Cartwright Act of 1934. Section 12 of that Act, still in the Federal statutes, argues strongly against diversion:

> Since it is unfair and unjust to tax motor-vehicle transportation unless the proceeds of such taxation are applied to the construction, improvement, or maintenance of highways, after June 30, 1935, Federal aid for highway construction shall be extended only to those States that use at least the amounts provided by law on June 18, 1934, for such purposes in each State from State motor vehicle registration fees, licenses, gasoline taxes, and other special taxes on motor-vehicle owners and operators of all kinds for the construction, improvement, and maintenance of highways and administrative expenses in connection therewith, including the retirement of bonds for the payment

> of which such revenues have been pledged, and for no other purposes, under such regulations as the Secretary of Commerce shall promulgate from time to time.[8]

Because the penalty for diversion under this provision is still based on the situation as it existed in 1934, it is no longer of consequence. No State now spends less on highways than it applied to that function from highway-user funds in 1934. The last penalty was imposed in 1940.[9] Yet, this Act continues to hold the Federal Government to the principle of anti-diversion. Interestingly enough, the Federal Government did not apply this principle to its own highway program until 1956, and then only in part, when Congress enacted the Highway Revenue Act creating a Federal Highway Trust Fund. To that fund accrue most Federal highway-user revenues with one notable exception–the excise tax on automobiles. That tax, which yields annually some $1.5 billion–about one-third the total revenue of the Highway Trust Fund–is used for general purposes.*

While there has been limited diversion of highway-user funds to nonhighway purposes, there has been considerable "diversion" of general revenue funds to highway purposes. Of the $3 billion-plus that local governments spent for highways in 1966 from their own revenue sources,** $1.2 billion was financed from property taxes and special assessments, about $1 billion from general fund appropriations, and approximately $650 million from borrowings.[10] Local governments obtained only minor amounts of revenue from local highway imposts.

The fact that local governments spend considerable amounts of nonhighway user taxes to build and maintain streets and roads is recognition of the fact that the general taxpayer benefits from highway programs. By the same token there are spillover social costs that can be attributed to the highway program–for example, those involving the displacement of houses and businesses. These costs and the complex highway and mass transit needs of an urban society call for a broadened application of highway-user funds to transportation purposes in addition to the construction and maintenance of streets and roads. The mass transit problem is discussed in the next chapter.***

Footnotes

[1] *Urban Roads*, Hearings Before the Subcommittee on Roads of the Committee on Public Works, U.S. Senate, 90th Congress, 1st Session, Part I, p. 153.

[2] Burch, Philip H., Jr., *Highway Revenue and Expenditure Policy in the United States* (Rutgers University Press, New Brunswick: 1962), p. 125.

[3] *Ibid.*, p. 175.

[4] U.S. Senate Committee on Public Works, *1968 National Highway Needs Report*, 90th Congress, 2nd Session, (U.S. Government Printing Office, Washington: 1968), p. 5.

[5] *Alabama Laws*, Act No. 224, Special Session, 1967.

[6] U.S. Bureau of Public Roads, *Highway Statistics 1967*, Table MF-3.

[7] U.S. Bureau of Public Roads, *Highway Statistics 1966*, Table M-1.

[8] 23 U.S.C.A. 126(a).

[9] Burch, *op. cit.*, p. 74.

[10] U.S. Bureau of Public Roads, *Highway Statistics 1967*, Tables LF-1 and 2, and UF-1 and 2.

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*There is currently (in 1969) an Administration proposal for placing part of the proceeds from this tax in an "Urban Public Transportation Trust Fund."

**Including debt service and administrative costs as well as construction and maintenance.

***See also Chapter II, pp.

TABLE A-22–STATE AND LOCAL EXPENDITURE FOR HIGHWAYS, BY GOVERNMENTAL SOURCE OF FINANCING, BY STATE, 1967

(Dollar amounts in millions)

State	Total expenditure								Exp. from own sources		
	Amount	% financed from––			State expenditure		Local direct exp.		Amount	% financed from–	
		Fed. aid	State funds	Local funds	Direct[1]	Intergovernmental	Amount	% Financed from State aid		State funds	Local funds
United States	$13,955.6	29.1	50.2	20.7	$9,422.6	$1,861.5	$4,533.0	41.1	$9,898.8	70.8	29.2
Alabama	225.9	37.6	47.9	14.5	155.9	39.9	70.0	57.0	140.9	76.8	23.2
Alaska	119.2	82.3	15.1	2.6	116.1	–	3.1	–	21.1	85.3	14.7
Arizona	164.3	48.8	43.3	7.9	134.1	19.0	30.2	62.9	84.2	84.6	15.4
Arkansas	133.5	38.6	56.4	5.0	101.9	25.1	31.7	79.2	82.0	91.8	8.2
California	1,337.5	26.2	52.8	20.9	831.2	274.4	506.3	54.2	986.5	71.6	28.4
Colorado	147.8	32.6	48.3	19.1	96.6	23.8	51.3	46.4	99.7	71.7	28.3
Connecticut	201.8	25.2	50.3	24.5	149.2	6.0	52.6	11.4	150.9	67.3	32.7
Delaware	69.9	21.6	36.5	41.9	38.5	2.1	31.4	6.7	54.8	46.5	53.5
Dist. of Columbia	51.6	45.3	–	54.7	–	–	51.6	–	28.2	–	100.0
Florida	439.2	18.2	47.0	34.8	269.7	17.2	169.5	10.1	359.4	57.5	42.5
Georgia	260.0	39.8	48.1	12.1	179.4	49.6	80.7	61.5	156.5	79.9	20.1
Hawaii	56.7	41.3	31.4	27.3	41.2		15.5	–	33.3	53.5	46.5
Idaho	62.7	38.6	47.7	13.7	44.9	10.0	17.8	56.2	38.5	77.7	22.3
Illinois	587.0	24.9	54.8	20.3	329.6	146.7	257.4	57.0	440.7	73.0	27.0
Indiana	299.7	34.0	58.4	7.6	199.6	78.9	100.1	78.8	197.7	88.5	11.5
Iowa	297.5	20.1	55.8	24.1	169.7	63.9	127.8	50.0	237.6	69.8	30.2
Kansas	183.0	21.6	39.2	39.2	108.3	14.0	74.7	18.7	143.5	50.0	50.0
Kentucky	273.1	34.1	59.8	6.2	253.5	2.8	19.7	14.2	180.1	90.6	9.4
Louisiana	319.7	27.0	57.0	16.0	253.8	22.5	65.8	34.2	233.3	78.1	21.9
Maine	87.9	26.7	46.2	27.1	63.1	3.1	24.8	12.5	64.4	63.0	37.0
Maryland	211.5	19.1	64.3	16.5	133.6	46.6	77.9	59.8	171.1	79.5	20.5
Massachusetts	274.2	30.7	34.9	34.4	164.7	15.2	109.4	13.9	190.0	50.3	49.7
Michigan	506.5	31.3	54.5	14.2	285.6	164.9	220.9	74.6	347.8	79.4	20.6
Minnesota	343.5	28.8	42.7	28.4	202.3	51.5	141.1	36.5	244.4	60.1	39.9
Mississippi	162.4	40.6	42.2	17.2	106.9	31.7	55.5	57.1	96.4	71.1	28.9
Missouri	278.9	36.4	45.6	18.0	210.7	19.8	68.2	29.0	177.5	71.7	28.3
Montana	95.9	53.1	27.9	19.0	77.5	0.2	18.4	1.1	45.0	59.6	40.4
Nebraska	137.3	35.0	41.9	23.2	88.1	21.1	49.2	42.9	89.3	64.4	35.6
Nevada	66.6	64.3	16.7	19.1	48.8	5.1	17.8	28.7	23.8	46.6	53.4
New Hampshire	57.1	27.1	51.0	21.9	45.0	0.4	12.1	3.3	41.6	70.0	30.0
New Jersey	398.0	26.1	36.5	37.4	243.7	15.9	154.3	10.3	294.1	49.4	50.6
New Mexico	94.9	58.3	34.4	7.4	82.3	5.9	12.6	46.8	39.6	82.3	17.7
New York	1,059.0	16.8	52.7	30.5	617.1	119.9	441.9	27.1	880.7	63.3	36.7
North Carolina	277.0	21.0	69.4	9.6	242.2	9.3	34.8	26.7	218.9	87.8	12.2
North Dakota	79.2	34.7	37.5	27.8	51.3	9.0	27.9	32.3	51.7	57.4	42.6
Ohio	706.7	28.9	56.6	14.5	457.4	161.1	249.3	64.6	502.4	79.6	20.4
Oklahoma	178.1	28.0	61.4	10.6	116.7	45.8	61.3	74.7	128.1	85.3	14.7
Oregon	183.7	29.2	58.1	12.7	122.5	38.6	61.2	63.1	130.1	82.0	18.0
Pennsylvania	718.3	27.1	60.1	12.8	570.4	64.4	147.9	43.5	523.8	82.4	17.6
Rhode Island	78.0	18.3	66.0	15.6	65.4	0.4	12.6	3.2	63.7	80.8	19.2
South Carolina	127.6	30.2	62.0	7.8	108.2	9.7	19.3	50.3	89.0	88.9	11.1
South Dakota	87.1	39.0	34.9	26.1	63.7	2.4	23.4	10.3	53.1	57.3	42.7
Tennessee	286.1	34.7	46.0	19.3	190.5	51.8	95.6	54.2	186.7	70.4	29.6
Texas	785.5	26.0	46.4	27.6	570.4	7.6	215.1	3.5	581.5	62.7	37.3
Utah	88.2	59.8	31.7	8.5	75.4	5.5	12.9	42.6	35.5	78.9	21.1
Vermont	66.9	38.0	52.0	10.0	55.6	5.0	11.3	44.2	41.5	83.9	16.1
Virginia	363.6	33.7	53.8	12.5	304.0	16.7	59.6	28.0	241.2	81.1	18.9
Washington	312.7	28.8	55.9	15.3	230.9	41.8	81.8	51.1	222.7	78.5	21.5
West Virginia	183.2	40.3	56.1	3.6	176.6	–	6.6	–	109.4	94.0	6.0
Wisconsin	360.9	13.7	35.7	50.6	116.9	92.4	244.0	37.9	311.5	41.3	58.7
Wyoming	68.9	51.8	41.4	6.8	62.0	2.8	6.9	40.6	33.2	85.8	14.2

[1] All federal aid highway funds assumed to be spent directly by the State government (except in the District of Columbia).

Source: Compiled by ACIR staff from various reports of the Governments Division, U.S. Bureau of the Census.

TABLE A-23–STATE ALLOCATION OF MOTOR FUEL TAXES TO LOCAL GOVERNMENTS, JAN. 1, 1969

State	Rate, 1/1/69 (cents per gal.)	Collections F.Y. 1968 (millions)	Percent of collections[1] allocated to–		Allocation factors	
			Counties	Municipalities	Counties	Municipalities
Alabama	7	$102.7	50%	5%	Equal shares and population	Population
Alaska	8	7.8	–	–	–	–
Arizona	7	52.7	27[3]	11	Motor fuel sales	Population
Arkansas[3]	7 1/2	65.5	15	15	Area, motor vehicle registration, pop. and equal shares	Population
California	7	580.7	23[4]	10[4]	Equal shares, mileage, m.v. reg.	Population etc.
Colorado[3]	6	53.1	26	9	M.V. reg. and mileage	M.V. reg. and mileage
Connecticut	7	76.9	Amounts appropriated (towns only)		Mileage and population (towns only)	
Delaware	7	16.4	–	14[5]	–	Pop. and mileage
Florida	7	190.5	9	–	Area, pop., contributions to State roads prior to 1931 and motor fuel sales	–
Georgia	6 1/2	131.3	Amounts appropriated		Mileage, and amounts specified by statutes	Population
Hawaii	5	14.7	–	–	–	–
Idaho	7	21.7	25	4	Equal shares, m.v. reg. and mileage	Population

Table A-23 (cont'd)

State	Rate, 1/1/69 (cents per gal.)	Collections F.Y. 1968 (millions)	Percent of collections[1] allocated to—		Allocation factors	
			Counties	Municipalities	Counties	Municipalities
Illinois	6	226.4	30	29	M.V. reg., pop. and mileage	Population
Indiana	6	137.1	32	15	Equal shares, mileage and m.v. reg.	Population
Iowa	7	90.1	34	11	Highway needs and area	Population
Kansas[3]	5	54.4	(6)	(6)	Equal shares, assessed valuation and mileage	Population
Kentucky	7	$ 91.9	—	—	—	—
Louisiana	7	85.3	14[7]	—	Motor fuel sales	—
Maine[3]	7	29.5	Amounts appropriated (towns only)		Unimproved road mileage (towns only)	
Maryland	7	97.2	20[8]	20[9]	Mileage and m.v. reg.	Mileage and m.v. reg.
Massachusetts[3]	6 1/2	121.8	Amounts appropriated (counties and towns)		Pop., mileage and area	Mileage (only towns with less than $5 million assessed value)
Michigan[10]	7	215.6	34[11]	20[11]	Mileage, M.V. reg, pop. and equal shares	Pop. and mileage
Minnesota[3]	7	108.1	29[12]	9[12]	Equal shares, M.V. reg., mileage and est. highway needs	Pop. and est. street needs
Mississippi	7	69.5	29[13]	[13]	Equal shares, pop. and area	Population
Missouri	5	101.1	5[14]	15[14]	Mileage and rural land valuation	Population
Montana	6 1/2	24.8	—	—	—	—
Nebraska	7 1/2	53.3	37[15]	5[16]	Statutory percentages	Population
Nevada[17]	6	16.8	25[17]	(17)	Area, pop., mileage and assessed value (1/2 cent tax)[17]	Assessed Value[17]
New Hampshire[3]	7	19.7	Amounts appropriated (cities and towns)		Mileage and assessed valuation (cities and towns)	
New Jersey	7	156.1	Amounts appropriated		Area, pop., mileage and equal shares	Pop., mileage and expenditure
New Mexico	7	29.3	1[18]	13[18]	Motor fuel sales	Motor fuel sales
New York	7	$291.8	10	10[19]	Mileage	New York City only
North Carolina	7	147.1	—	8	—	Pop. and mileage
North Dakota	6	15.6	27[20]	10[20]	M.V. registrations	Population
Ohio	7	285.2	14[21]	11	Equal shares	M.V. reg.
Oklahoma	6 1/2	80.7	37[22]	3[22]	Area, pop. and mileage	Population
Oregon[23]	7	59.3	20	12	M.V. reg.	Population[24]
Pennsylvania	7	291.1	7	16[25]	(26)	Mileage and pop.
Rhode Island	8	22.0	—	1		Mileage (maximum $10,000 to any city or town
South Carolina	7	75.6	29[27]	—	Area, pop., mileage and m.v. reg.[28]	—
South Dakota	6	19.6	13	—	Mileage, m.v. reg., and assessed value	—
Tennessee	7	113.2	29	14	Equal shares, area and pop.	Population
Texas[29]	5	264.3	Amounts appro.	—	Area, pop. and mileage	—
Utah	6	28.5	—	—	—	
Vermont	8	12.1	—	Amounts appropriated (towns only)	—	Mileage (towns)
Virginia	7	130.6	—	Amounts appropriated	(30)	Mileage
Washington	9	126.0	25	14	Equal shares, m.v. reg. and highway "needs"	Population
West Virginia[31]	7	44.3				
Wisconsin	7	115.4	—	Amount appropriated[32]	M.V. reg. and mileage	M.V. reg., mileage and expenditure
Wyoming	6	14.2	35	6	Area, pop. and assessed valuation	Population

Note: Does not reflect allocations to State highway agencies for expenditure by them on county roads and city streets.

[1] Generally after certain deductions (e.g. refunds, administration cost, etc.)

[2] About 7% redistributed to cities within each county in proportion to population.

[3] Combination of motor fuel and vehicle registrations.

[4] Additional 15% apportioned to cities and counties by State Controller.

[5] Equivalent of 1cent/gal., but not to exceed $2 million.

[6] $3.6 million per year apportioned to counties: 40% equally and 60% on basis of assessed valuation for previous years; not less than 50% to be used on township roads. 1/5 of total receipts, after refunds and deduction of 2% for administration and collection transferred to special county road and city street fund for redistribution as follows: $2.5 million to city streets and alley fund based on population: $4 million to county secondary funds based on mileage, and residue distributed 50% to cities and 50% to counties on same basis.

[7] Includes city of New Orleans.

[8] After cost of collection, administration, refunds, and $400,00 for improvement of waterways and facilities. Allocation factor—1/2 based on county mileage, 1/2 on county M/V registration. Each county must in turn share its portion with the municipalities in the county as follows: 1/2 based on county mileage within the municipalities and 1/2 based on county's total motor vehicles registered in municipalities. Each municipality's share will be 50% of this calculation. State Roads Commission retains the funds and constructs and maintains County roads in six counties.

[9] City of Baltimore. Twenty percent of receipts after deductions indicated in footnote eight.

[10] Combination of motor fuel, motor-vehicle, and motor-carrier taxes.

[11] After deduction of $3.5 million for Mackinac Bridge Authority and 1 1/2 percent of gasoline tax collections for State waterways commission.

[12] After deduction of 3/4 of 1 percent or $500 thousand whichever is the lesser, for the conservation department, plus certain other deductions.

[13] Includes an amount for cities. Cities received $1 million from the State's share (9/14) of motor fuel taxes and a share of each county's, 5/14 of motor fuel taxes computed as 1/12 of the product of the total population of all incorporated municipalities times 75 cents; but no municipality may receive more than $65,000 from both the State's and the county's share.

[14] Plus reimbursement to counties and other political subdivisions (except incorporated cities and towns) for money expended by them in construction and acquisition of roads and bridges later taken over by the State.

[15] Includes 22% for grade crossing protectionwhich is redistributed in part to cities and villages on the basis of population: 2,500 or less, 10 cents per capita; 2,501 to 25,000, 15 cents per capita; 25,001 to 200,000, 40 percent of county's share; and more than 200,000, 75 percent of county's share.

[16] Plus an additional amount for grade crossing protection; see footnote [15].

[17] One and one-half cents of six cents tax of which 1 cent is an optional tax that is returned to the county of origin and may be declined by resolution of the county governing board (none has done so). Each county's 1 cent tax is apportioned between the county and incorporated cities within the county on the basis of assessed value. In addition, counties with a population of 25,000 or more that have adopted a streets and highways plan embracing more than one municipal corporation may levy a one cent (one or two cents, effective 7/1/69) per gallon tax on motor vehicle fuel sold in the county to finance such a plan. To date, three counties have adopted a one cent tax, which is in addition to State motor fuel taxes and is administered by the State.

[18] For general county and municipal purposes. Amount to municipalities includes "H Class" counties.

[19] New York City only.

[20] Percentage of common fund which includes motor fuel and special fuel excise tax, and motor vehicle and motor carrier revenues. Counties to retain 73% of revenues; however, no county to receive less than fiscal year 1965 amount. Remainder (27 percent or less) distributed to incorporated cities on population basis.

[21] Five of fourteen percent distributed to counties to be paid to townships for construction and maintenance of roads. County may expend such funds at option of township. County engineer must approve plans and specifications.

[22] After distributions of 3% for collection and administration, and 97% of 97 1/2% of the tax on all fuels consumed on Oklahoma Turnpike (maximum $3 million annually) to make up any deficiencies in monies for payment of interest on turnpike bonds.

[23] Combination of motor-fuel, motor-vehicle, and motor-carrier taxes and and fines.

[24] In cities over 100,000 percentage of population enters into the calculation. For the calendar year 1969, the figure is 94 percent and will increase by 4 percent a year until reaching 100 percent in 1971.

[25] Minimum of $30 million per calendar year to cities, boroughs, towns and townships.

[26] Distributed to counties in proportion to the amount received by the counties based upon the 1929, 1930, and 1931 ratio. As a county, Philadelphia receives a share of these funds. For 1967 the counties (other than Philadelphia) made grants to municipalities totaling 37 percent of these funds, on a formula basis of 50 percent on mileage and 50 percent on population.

Footnotes continued on next page

TABLE A-24–STATE HIGHWAY AID, BY TYPE OF RECEIVING GOVERNMENT, BY STATE FISCAL YEARS 1962 AND 1967

State	Total 1967		Percentage distribution 1967 and 1962							
	Amount (000,000)	Per capita	Counties 1967	Counties 1962	Municipalities 1967	Municipalities 1962	Townships 1967	Townships 1962	Special districts 1967	Special districts 1962
United States	$1,861.5	9.45	59.2	62.6	33.0	30.3	6.4	7.0	1.4	*
Alabama	39.9	11.28	99.1	99.8	0.9	0.2	—	—	—	—
Alaska										—
Arizona	19.0	11.61	72.5	66.7	27.5	33.3	—	—	—	—
Arkansas	25.1	12.73	53.7	66.9	46.3	33.1	—	—	—	—
California	274.4	14.32	52.0	70.1	38.3	29.9	—	—	9.7	—
Colorado	23.8	12.04	71.4	73.1	28.6	26.9	—	—	—	—
Connecticut	6.0	1.54	—	—	2.5	—	97.5	100.0	—	—
Delaware	2.1	3.93	2.6	9.6	97.4	90.4	—	—	—	—
Florida	17.2	2.87	100.0	100.0	—	—	—	—	—	—
Georgia	49.6	11.00	67.6	94.8	32.4	5.2	—	—	—	—
Hawaii										
Idaho	10.0	14.32	86.3	91.8	13.7	8.2	—	—	—	—
Illinois	146.7	13.47	38.6	32.0	49.1	56.1	12.3	11.9	—	—
Indiana	78.9	15.78	68.1	68.1	31.9	31.9	—	—	—	—
Iowa	63.9	23.20	69.7	72.6	30.3	27.4	—	—	—	—
Kansas	14.0	6.15	64.1	65.2	28.4	27.0	7.5	7.8	—	—
Kentucky	2.8	.89	99.9	88.6	0.1	11.4	—	—	—	—
Louisiana	22.5	6.16	88.0	86.6	12.0	13.4	—	—	—	—
Maine	3.1	3.18	10.1	10.0	8.9	8.9	81.0	81.1	—	—
Maryland	46.6	12.63	33.9	30.7	66.1	69.3	—	—	—	—
Massachusetts	15.2	2.01	—	—	45.0	58.4	55.0	41.6	—	—
Michigan	164.9	19.21	64.7	64.6	34.5	34.7	0.8	0.7	—	—
Minnesota	51.5	14.37	77.8	78.4	22.2	21.6	—	—	—	—
Mississippi	31.7	13.51	97.7	94.1	2.3	5.9	—	—	—	—
Missouri	19.8	4.30	24.3	74.0	75.7	26.0	—	—	—	—

*Less than 0.05 percent

[1] Represents a refund item.

State	Total 1967		Percentage Distribution 1967 and 1962							
	Amount (000,000)	Per capita	Counties 1967	Counties 1962	Municipalities 1967	Municipalities 1962	Townships 1967	Townships 1962	Special districts 1967	Special districts 1962
United States	$1,861.5	9.45	59.2	62.6	33.0	30.3	6.4	7.0	1.4	*
Montana	.2[1]	.29	—	—	100.0	—	—	—	—	—
Nebraska	21.1	14.68	87.6	100.0	12.4	—	—	—	—	—
Nevada	5.1	11.53	100.0	100.0	—	—	—	—	—	—
New Hampshire	.5	.74	—	—	—	—	100.0	100.0	—	—
New Jersey	15.9	2.27	58.6	61.0	40.5	25.7	—	12.4	0.9	0.9
New Mexico	5.9	5.84	66.0	63.4	34.0	36.6	—	—	—	—
New York	119.9	6.54	61.2	62.3	28.2	25.2	10.7	12.5	—	—
North Carolina	9.3	1.85	—	—	100.0	100.0	—	—	—	—
North Dakota	9.0	14.08	84.1	96.0	15.9	4.0	—	—	—	—
Ohio	161.1	15.40	52.0	58.2	36.8	30.6	11.2	11.2	—	—
Oklahoma	45.8	18.34	87.7	87.9	12.3	12.1	—	—	—	—
Oregon	38.6	19.32	79.2	76.4	20.8	23.6	—	—	—	—
Pennsylvania	64.4	5.54	25.4	27.2	30.8	30.7	43.8	42.1	—	—
Rhode Island	.4	.43	—	—	—	—	100.0	100.0	—	—
South Carolina	9.7	3.73	100.0	100.0	—	—	—	—	—	—
South Dakota	2.4	3.52	100.0	100.0	—	—	—	—	—	—
Tennessee	51.8	13.32	68.2	66.7	31.8	33.3	—	—	—	—
Texas	7.6	.70	100.0	100.0	—	—	—	—	—	—
Utah	5.5	5.37	58.1	69.1	41.9	30.9	—	—	—	—
Vermont	5.0	12.05	—	—	10.0	2.3	90.0	97.7	—	—
Virginia	16.7	3.68	21.3	22.1	78.7	77.9	—	—		—
Washington	41.7	13.52	62.5	61.8	37.5	38.2	—	—		—
West Virginia	—	—	—	—	—	—	—	—		—
Wisconsin	92.4	22.06	55.9	54.8	24.3	24.4	19.7	20.8		—
Wyoming	2.8	8.84	77.4	77.7	22.6	22.3	—	—		—

Source: U.S. Bureau of the Census, *State Government Finances*, 1967 and Census of Governments, 1967, Vol. 6, No.4, *State Payments to Local Governments.*

TABLE A-25–STATE AID FOR LOCAL RURAL AND URBAN ROADS AND STREETS, BY STATE, CALENDAR YEARS 1962 AND 1967

(Dollar amounts in thousands)

State	1967				1962			
	Total	For counties and townships (rural roads)	For municipalities (urban streets) Amount	For municipalities (urban streets) % of total	Total	For counties and townships (rural roads)	For municipalities (urban streets) Amount	For municipalities (urban streets) % of total
United States	$1,868,645	$1,199,923	$668,722	35.8	$1,316,238	$922,467	$393,771	29.9
Alabama	39,655	36,577	3,078	7.8	32,953	30,602	2,351	7.1
Alaska								
Arizona	19,430	10,787	8,643	44.5	8,878	5,995	2,883	32.5
Arkansas	27,004	13,827	13,177	48.8	13,617	9,039	4,578	33.6
California	301,048	156,034	145,014	48.2	150,316	101,383	48,933	32.6
Colorado	26,906	19,430	7,476	27.8	20,916	15,045	5,871	28.1
Connecticut	12,246	4,286	7,960	65.0	8,932	3,126	5,806	65.0
Delaware	2,000	—	2,000	100.0	1,204	—	1,204	100.0
Florida	18,136	18,083	53	.3	15,038	15,038	—	—
Georgia	18,754	9,422	9,332	49.8	10,416	9,416	1,000	8.6
Hawaii	8,897	8,897	—	—	5,315	5,315	—	—
Idaho	10,478	9,055	1,423	13.6	8,634	7,924	710	8.2
Illinois	169,120	93,838	75,282	44.5	88,328	44,504	43,824	49.6
Indiana	79,454	54,038	25,416	32.0	65,223	44,390	20,833	31.9
Iowa	62,135	42,389	19,746	31.8	47,938	32,911	15,027	31.3
Kansas	8,533	3,625	4,908	57.5	7,569	3,668	3,901	51.5
Kentucky	3,266	3,266	—	—	2,217	2,217	—	—
Louisiana	19,544	17,823	1,731	8.9	14,382	13,003	1,379	9.6
Maine	2,608	2,073	535	20.5	2,895	2,039	856	29.6
Maryland	43,549	14,095	29,454	67.6	37,452	14,925	22,527	60.1
Massachusetts	14,569	8,922	5,647	38.8	9,350	6,850	2,500	26.7
Michigan	141,055	94,290	46,765	33.2	111,130	74,672	36,458	32.8
Minnesota	42,892	30,833	12,059	28.1	31,434	23,568	7,866	25.0

Footnotes for Table A-23 (Cont'd)

[27] Plus an amount equal to one-half of one percent on 5 cents of the gasoline tax distributed to counties on basis of watercraft registered in each county. If not used for this purpose, revenue shall accrue to the respective county's Class C highway fund account.

[28] One-half of county share apportioned among counties as follows: 1/3 area; 1/3 population, and 1/3 rural mileage. The remaining one-half of county share is distributed on the basis of M/V registration fees with maximum and minimum share adjustments.

[29] About one-fourth of the motor fuel tax collections is placed in the available school fund for distribution to school districts.

[30] To Arlington and Henrico Counties, which receive a percentage of the motor fuel tax based on a 1932 formula updated to reflect current tax collections in each county. All other counties have elected to place their roads under State control.

[31] Combined motor fuel and certain motor-vehicle revenues.

[32] From 4 cents of the 7 cents tax (including the equivalent of 11% of commercial registration fees and 20% of other registration fees distributed to towns, cities, and villages for general purpose use). After these appropriations, 42% of the remainder of the 4 cents is distributed to towns, cities, and villages, and 18% to counties. In addition 23 1/3% of the remaining 3 cents tax is distributed to towns, cities, and villages, and 10% to counties.

Source: Federal Highway Administration, Bureau of Public Roads, Table MF-106, effective Jan. 1, 1969. Motor fuel tax collection data from U.S. Bureau of the Census, *State Tax Collections, 1968.*

Table A-25 (concl'd)

State	1967				1962			
	Total	For counties and townships (rural roads)	For municipalities (urban streets)		Total	For counties and townships (rural roads)	For municipalities (urban streets)	
			Amount	% of total			Amount	% of total
United States	$1,868,645	$1,199,923	$668,722	35.8	$1,316,238	$922,467	$393,771	29.9
Mississippi	33,093	31,707	1,386	4.2	29,021	27,546	1,475	5.1
Missouri	19,640	4,611	15,037	76.5	9,449	2,292	7,157	75.7
Montana	4,782	4,413	369	7.7	4,100	4,040	60	1.5
Nebraska	29,994	22,354	7,640	25.5	22,432	18,408	4,024	17.9
Nevada	5,189	3,488	1,701	32.8	2,659	1,747	912	34.3
New Hampshire	250	249	1	.4	200	200	—	—
New Jersey	15,243	10,960	4,283	28.1	16,244	11,374	4,870	30.0
New Mexico	5,425	4,355	1,070	19.7	4,055	3,202	853	21.0
New York	117,145	70,934	46,211	39.4	71,486	59,121	12,365	17.3
North Carolina	9,959	—	9,959	100.0	7,641	—	7,641	100.0
North Dakota	12,121	10,523	1,598	13.2	7,926	7,482	444	5.6
Ohio	165,131	112,305	52,826	32.0	138,709	94,726	43,983	31.7
Oklahoma	46,612	40,976	5,636	12.1	37,125	32,666	4,459	12.0
Oregon	38,654	30,285	8,369	21.7	28,029	21,765	6,264	22.3
Pennsylvania	52,900	33,478	19,422	36.7	53,058	33,719	19,339	36.4
Rhode Island	386	86	300	77.7	423	122	301	71.2
South Carolina	9,674	9,674	—	—	7,492	7,492	—	—
South Dakota	8,021	7,346	675	8.4	7,406	6,784	622	8.4
Tennessee	47,339	30,431	16,908	35.7	35,789	23,867	11,922	33.3
Texas	38,259	38,259	—	—	35,711	35,711	—	—
Utah	4,651	2,916	1,735	37.3	3,812	2,427	1,385	36.3
Vermont	4,983	4,983		—	4,434	4,089	345	7.8
Virginia	16,711	1,770	14,941	89.4	11,475	1,350	10,125	88.2
Washington	48,745	32,466	16,279	33.4	32,537	21,009	11,528	35.4
West Virginia	—	—	—	—	—	—	—	—
Wisconsin	59,463	37,430	22,033	37.1	48,249	33,613	14,636	30.3
Wyoming	2,978	2,334	644	21.6	2,639	2,085	554	21.0

Source: U.S. Department of Commerce, Bureau of Public Roads, *Highway Statistics* (1962 and 1967), Table SF-5A.

TABLE A-26—DIVERSION OF STATE HIGHWAY USER TAXES, BY STATE, 1967

(Dollar amounts in millions)

State	Net funds distributed[1]			Amount for nonhighway purposes					
	Total	Motor fuel taxes	Motor vehicle taxes	Total		Motor fuel taxes		Motor vehicle taxes	
				Amount	% of net	Amount	% of net	Amount	% of net
United States	$7,527.0	$4,954.5	$2,572.5	$640.1	8.5%	$196.4	4.0%	$443.7	17.3%
Alabama*	124.1	98.2	25.9	1.5	1.2	.4	.4	1.2	4.6
Alaska	9.7	5.9	3.7	1.1	11.3	—	—	1.1	29.7
Arizona*	69.2	50.7	18.5	—	—	—	—	—	—
Arkansas	94.0	64.7	29.3	2.9	3.0	2.1	3.2	.8	2.7
California*	926.4	551.9	374.4	166.7	18.0	—	—	166.7	44.5
Colorado*	69.9	47.6	22.3	.7	1.0	—	—	.7	3.1
Connecticut	93.9	70.4	23.5	—	—	—	—	—	—
Delaware	24.4	15.9	8.6	—	—	—	—	—	—
Dist. of Col.	22.5	14.2	8.3	5.0	22.2	—	—	5.0	60.2
Florida	287.0	182.1	104.8	100.0	34.8	6.5	3.5	93.5	89.2
Georgia*	151.6	126.0	25.6	.5	.3	—	—	.5	2.0
Hawaii	19.9	10.4	9.6	1.1	5.5	.4	3.8	.7	7.3
Idaho*	31.8	19.4	12.4	—	—	—	—	—	—
Illinois	343.3	205.9	137.4	7.9	2.3	2.7	1.3	5.2	3.8
Indiana	178.8	134.0	44.9	—	—	—	—	—	—
Iowa*	152.5	85.9	66.6	—	—	—	—	—	—
Kansas*	79.3	52.5	26.8	.8	1.0	.8	1.5	—	—
Kentucky*	120.2	88.9	31.3	—	—	—	—	—	—
Louisiana*	105.5	91.5	14.0	—	—	—	—	—	—
Maine*	39.5	27.0	12.4	—	—	—	—	—	—
Maryland	147.4	93.2	54.2	.2	.1	—	—	.2	.4
Massachusetts*	136.9	114.1	22.8	—	—	—	—	—	—
Michigan*	291.7	198.0	93.8	—	—	—	—	—	—
Minnesota*	149.4	95.8	53.6	1.0	.7	.2	.2	.7	1.3
Mississippi	82.9	66.3	16.6	—	—	—	—	—	—
Missouri*	153.7	96.3	57.4	.2	.1	.2	.2	—	—
Montana*	31.9	21.9	10.0	—	—	—	—	—	—
Nebraska	70.2	50.7	19.5	—	—	—	—	—	—
Nevada*	20.4	16.8	3.6	—	—	—	—	—	—
New Hampshire*	29.9	18.9	11.0	—	—	—	—	—	—
New Jersey	240.3	150.9	89.4	109.9	45.7	69.2	45.8	40.8	45.6
New Mexico	45.5	32.8	12.9	3.4	7.5	3.4	10.4	—	—
New York	482.5	276.4	206.1	16.6	3.4	9.4	3.4	7.2	3.5
North Carolina	194.8	144.4	50.4	—	—	—	—	—	—
North Dakota*	30.8	17.1	13.6	.9	2.9	.1	.6	.8	5.9

Table A-26 (Cont'd)

State	Net funds distributed[1]			Amount for nonhighway purposes					
				Total		Motor fuel taxes		Motor vehicle taxes	
	Total	Motor fuel taxes	Motor vehicle taxes	Amount	% of net	Amount	% of net	Amount	% of net
United States	$7,527.0	$4,954.5	$2,572.5	$640.1	8.5%	$196.4	4.0%	$443.7	17.3%
Ohio*	400.2	272.7	127.5	—	—	—	—	—	—
Oklahoma	130.4	78.4	52.0	23.3	17.9	—	—	23.3	44.8
Oregon*	88.8	53.2	35.6	4.8	5.4	2.9	5.5	1.9	5.3
Pennsylvania*	378.0	277.0	100.9	—	—	—	—	—	—
Rhode Island	32.3	21.3	11.0	4.6	14.2	3.1	14.6	1.6	14.5
South Carolina	88.0	75.7	12.3	2.9	3.3	2.7	3.6	.2	1.6
South Dakota*	32.9	18.6	14.4	—	—	—	—	—	—
Tennessee	168.8	124.6	44.3	20.3	12.0	20.3	16.3	—	—
Texas*	462.1	256.6	205.5	112.4	24.3	64.7	25.2	47.8	23.3
Utah*	34.9	26.9	8.0	.1	.3	.1	.4	—	5.0
Vermont	23.7	11.7	12.0	—	—	—	—	—	—
Virginia	189.5	123.2	66.2	—	—	—	—	—	—
Washington*	188.8	112.4	76.4	42.1	22.3	.9	.8	41.2	53.9
West Virginia*	74.7	42.7	32.0	—	—	—	—	—	—
Wisconsin	163.1	110.5	52.7	8.9	5.5	6.3	5.7	2.6	4.9
Wyoming*	19.2	12.7	6.5	—	—	—	—	—	—

*Has a constitutional anti-diversion provision.

[1] After payment of collection and administrative expenses.

Source: U.S. Bureau of Public Roads, *Highway Statistics 1967*, Tables DF, MU-3 and MF-3.

Chapter VI

Financing Urban Development and General Local Government Programs— The State Response

The critical problems of the large central cities in particular have spurred State governments to provide financial assistance for a variety of urban development programs as well as for general local government support. The need for this additional "outside" financing arises, at least in part, from (a) the redistribution of population to urban areas, (b) the use that commuters, visitors and shoppers make of central city facilities and (c) the financial limitations of local governments.

These factors, which both generate additional demands for public services and aggravate the fiscal disparities among jurisdictions in metropolitan areas, require a countervailing flow of financial resources. Either the State or a metropolitan government could perform this counter balancing function. Both levels offer the possibility of making the taxing jurisdiction more commensurate with program benefits—that is, capturing the spillover effects—and opening up the possibility of exploiting tax resources that are not presently utilized because needs in certain localities are not apparent.

Since the formation of metropolitan governments would involve the redistribution of existing fiscal resources among governmental jurisdictions, however, the richer suburban communities perforce can be expected to oppose such governmental arrangements. Nonetheless, metropolitan governments do have the substantial merit of encompassing the geographic scope of program benefits and increased recognition of these interrelationships may serve to reduce some of this opposition. Whatever the political feasibility of metropolitan government, its future is much more promising for those areas located entirely or predominantly in one State, as most in fact are.

Simply because they exist, however, the State governments rather than metropolitan governments appear the more realistic source for providing this additional "outside" finance. States—like areawide jurisdictions—can reduce interlocal fiscal disparities, can capture the spillover effects, and can use the income tax more effectively to finance the needed public services.

URBAN DEVELOPMENT PROGRAMS

There are indications that a considerable number of the industrial States are beginning to recognize their financial responsibility for helping meet the growing physical and social problems of the large cities.

The recent movement toward establishment of State agencies with specific concern for urban affairs is a case in point. There are now 20 States with such agencies, 15 of which have been set up since 1966.[1] Massachusetts and Virginia established local affairs agencies in 1968 and Rhode Island converted its Division of Local and Metropolitan Government to a full-fledged Department of Community Affairs that same year. Although most of these agencies provide only advisory services and technical assistance, a few (for example, Massachusetts, Connecticut, New Jersey and Pennsylvania) are geared to administer substantial financial assistance programs.

The impetus toward State involvement in particular urban problems has come partially from a number of Federal grant programs for community development and partially from an increasing sense of political responsibility on the part of governors and State legislative leaders. As rising price levels and technological advance pushed costs well beyond the capability of local governments to deal with their community development problems from their own resources, city officials have been going in increasing numbers to Washington for help.

The mayors' pleas led Congress to enact a number of grant programs to aid local governments directly, bypassing the States. Three functional areas in which large-scale Federal aid was forthcoming are particularly relevant to community development—mass transportation, housing and urban renewal, and water and sewer facilities including treatment plants. More recently the

Demonstration Cities and Metropolitan Development Act of 1966 (Model Cities) provides, in effect, Federal block grants to cities unrestricted as to function. Federal commitments for this program approach $1 billion in fiscal 1969.

All of these Federal programs require local financial participation and a number of States now "buy into" them in order to relieve localities of part of the non-Federal share. Some States go beyond the Federal programs and provide financial aid for other purposes, such as New York's urban development corporation and New Jersey's recently authorized "meadowlands" program. New Jersey and Pennsylvania now supplement Federal funds under the model cities program, and in some instances are funding such programs in communities that were not able to obtain Federal funds.

By 1967, State financial participation in these functional areas was still minimal. The Bureau of the Census reported less than $150 million of State aid for urban programs, with only a handful of States participating in each (table 28). However, those figures do not reflect a score or more of urban assistance programs enacted by the 1967 and 1968 State legislative sessions. As these new programs become fully operative and more States act, it can be anticipated that the annual State financial stake in this field will grow apace.

TABLE 28—STATE PAYMENTS TO LOCAL GOVERNMENTS FOR SELECTED URBAN TYPE FUNCTIONS, 1967
(Millions of dollars)

State	Total	Housing and urban renewal	Water and sewer	Urban mass transportation
United States	141.1	67.0	26.3	47.8
Alabama	*	*	—	—
California	27.5	—	—	27.5[1]
Connecticut	4.3	4.3	—	—
Delaware	.3	—	.3	—
Hawaii	.2	.2	—	
Maine	.7	—	.7	—
Maryland	1.8	—	1.8	—
Massachusetts	21.5	7.2	.2	14.1
New Hampshire	1.0	—	1.0	—
New Jersey	3.5	—	3.5	—
New York	52.1	43.5	8.6	—
Pennsylvania	24.6	11.1[2]	7.3	6.2
Texas	1.6	—	1.6	—
Vermont	1.3	—	1.3	—
Washington	.6	.6		

Note: The States not listed made no aid payments for these functions in 1967.

*Less than $50,000

[1] Excludes payments to cities from the motor vehicle "in lieu" property tax fund ($93.8 million in 1967). Funds are distributed to cities in proportion to population and must be used for law enforcement, fire protection to highway traffic, and rapid transit.

[2] Housing construction in ratio to local expenditure for approved redevelopment projects.

Source: U.S. Bureau of the Census, Census of Governments, 1967, Vol. 6, No. 4, *State Payments to Local Governments*, Table 6.

Urban Mass Transportation

During fiscal 1967, very little State money was made available for urban mass transportation—a total of $48 million accounted for by but three States (Massachusetts, $14.1 million; California, $27.5 million; and Pennsylvania, $6.2 million). By way of contrast, a Federal "precedent" was set with passage of the Housing Act of 1961 and, more significant, the Mass Transportation Act of 1964.[2] The former Act provided for a mass transportation demonstration program, authorizing $25 million for project grants, while the latter authorized $150 million and $175 million for fiscal years 1969 and 1970 respectively.[3] By December 31, 1968 more than 100 capital grants, involving nearly $500 million of Federal funds had been approved.[4]

Despite the limited State financial participation, recent actions indicate that a growing importance is now attached to the problem of urban mass transit. Further State assistance will be forthcoming in New York, where voters approved a $2.5 billion bond issue in 1967, $1 billion of which is specifically set aside for mass transit; in New Jersey, where a $640 million bond issue for highways and mass transportation was authorized; and in Maryland, where the 1969 Legislature authorized State subsidization of the proposed Washington, D.C., subway system and established a Metropolitan Transit Authority to acquire, construct and operate mass transit facilities in the Baltimore metropolitan area.

Including California, Maryland, Massachusetts, New Jersey, Pennsylvania and New York, eleven States now have programs to supplement local contributions to the Federal mass transportation program with State funds.[5] Undoubtedly other urban States will help finance such programs. A broader policy for a balanced transportation system—recognizing not only highway needs but also mass transit needs—is developing slowly but surely. Eight States—California, Connecticut, Delaware, Florida, Hawaii, New Jersey, New York and Wisconsin—have already converted their highway departments to departments of transportation.[6]

With the development of departments of transportation the States have perhaps started the administrative counterpart for new transportation financing arrangements. Highway-user taxes, tolls and user charges for other modes of transportation could be accumulated in a "Transportation Fund" for distribution in accordance with a plan administered by the State department of transportation. This would represent a halfway-house between outright repeal of antidiversion provisions and complete earmarking of transportation fees.*

Housing and Urban Renewal

The 1967 Census of Governments reports that seven States provided a mere $67 million in aid payments for housing and urban renewal programs. This compares with a Federal program of ten times that magnitude and local government expenditures in the housing and urban renewal field of $1.5 billion. However, a number of States authorized new and expanded housing and urban renewal programs in 1967 and 1968—among them Connecticut, Delaware, Massachusetts, Michigan, New Jersey, Vermont, West Virginia, and Wisconsin. More important, several States are beginning to take a broad new approach to the problem of urban development.

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*See Chapter V for a discussion of State anti-diversion amendments.

The Connecticut approach—A prime example of this new approach is the Connecticut Department of Community Affairs, which became operative July 1, 1967, and is charged with providing financial and technical assistance to localities. Connecticut's decision to place major reliance upon State initiative and financial resources rather than upon Federal and local funds stands in sharp contrast to the typical approach to implementing urban programs. For the fiscal years 1968 and 1969, Connecticut provided funds totaling $55 million for eighteen new programs in five general areas: planning and zoning; physical improvements and community development; housing, including code enforcement and tax abatements on low- and moderate-income dwellings; personal services, including relocation assistance and rehabilitation activities in housing projects; and human resource development. State grants to local governments for most of these activities are to be renewed at the termination of the biennium.

As a condition of eligibility for State financial aid, localities are required to prepare comprehensive "community development action plans" for submission to regional planning agencies for review and comment. The enabling legislation also created an Advisory Council on Community Affairs to conduct studies and to advise the Commissioner concerning local problems.

New York's program—Perhaps the most comprehensive State effort on the urban front is the New York State urban development program. The central objective of New York's program has been described as one that "would (a) get things moving faster and (b) bring to bear the needed financial and intellectual resources of private enterprise."[7]

New York established three corporations to deal with various phases of an overall State urban development effort. Only one of the three is a public benefit corporation vested with the privileges and immunities of a governmental organization—the New York State Urban Development Corporation. It possesses borrowing powers and the right of eminent domain and may override local laws and regulations. It may act only where it satisfies statutory criteria for a "finding" that a project will fulfill an appropriate and specifically unmet need. It can be designated by a municipality as the sponsor of an urban renewal plan or it may proceed with its own plan where the finding is established.

The Corporation for Urban Development and Research in New York has a mission similar to the Urban Development Corporation but will draw its financial support from private sources as well as from governments that participate in the operation of local subsidiaries of the parent corporation.

The Urban Development Guarantee Fund is authorized to guarantee loans made by conventional lending institutions to small businesses and owners of residential property. This corporation will obtain its capital from gifts, grants and the sale of debentures.

Sewage Treatment Facilities

Spurred by the provisions of the 1965 Water Quality Control Act, many States become active partners with localities in carrying out water and air pollution abatement programs. With Federal categorical aid as the "carrot" and possible direct Federal enforcement as the "stick", water pollution abatement activity increased sharply in 1967—considerably beyond the $26 million of State payments reported by the Census Bureau for fiscal 1967. By the end of that year, 20 States had authorized financial assistance to local water pollution abatement efforts and Michigan, Ohio and Washington joined the fold in 1968. In some States, these programs are quite extensive:

- New York established a Pure Water Authority to assist local governments in the construction, maintenance and operation of water pollution abatement systems. The program provides for 30% State aid and "pre-financing" of the 30% Federal share.
- Rhode Island voters in June 1967 approved a $29 million bond issue of which $12 million was earmarked for matching local funds for sewage treatment projects.
- Connecticut's 1967 legislative session established a regional authority and approved a $150 million clear water bond issue. State funds will be available to municipalities to undertake new anti-pollution projects or to assist those plants currently under construction.
- In 1968, a $3.35 billion bond issue was authorized in Michigan to provide sewage disposal and water supply facilities, and part of a $759 million bond issue was authorized for similar purposes in Ohio.

  In many of these States legislative activity went beyond clear waters to encompass air pollution abatement assistance as well.

On the debit side,

- Illinois voters turned down a $1 billion bond issue in 1968 which would have provided $200 million for sewer and water projects and for air pollution facilities.

The marked increase in State participation in pollution control efforts may be viewed mainly as a response to the special incentive provision in the Water Quality Act of 1965, which provides for a Federal aid bonus for projects when the State "buys in," and to a combination of the "carrot and stick" technique in the Air Quality Act of 1967.

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Because the Federal Government has developed many urban oriented programs of categorical assistance—

frequently bypassing the States—much confusion exists as to the appropriate role of the State in the urban field. Most would, however, agree that because these services are of more than local interest, States must do more than simply react to Federal-local initiatives.

The principal financial issue seems to be one of strategy—how best to get the State into wholesale involvement and participation in the functions of urban government. Direct financial program assistance is but one of a number of options. Moreover, it is likely to be influenced by the amount and objectives of the State aid provided in other related functional and program areas.

How and when the State's role in urban affairs will finally crystalize cannot be forecast. Nevertheless, State legislation, constitutional revision and referendum proposals indicate certain evolving trends.

- Some States are making notable efforts toward "unshackling" local governments and enabling them to deal with metropolitan-wide problems.
- Many States are establishing agencies for local affairs, several of which have substantial financial, program and coordination responsibilities, as well as technical assistance, advisory and research functions.
- Some States are beginning to appropriate sizeable amounts of funds to assist local governments and are continuing to "buy into" Federal-local grant-in-aid programs, but with a considerable part of this activity continuing to be a response to Federal incentives.
- Increasingly, States are becoming concerned with the replacement of antiquated constitutional articles by provisions equipping them with the necessary tools to meet twentieth century needs.

In a number of States, however, some of the above trends are hardly discernible; in a few States, none are. It has taken a considerable period of time for most States to recognize their role, responsibility and stake in facing existing or potential problems attending the urbanization of the nation and to recognize that survival of the States as viable partners in the American Federal system depends to a significant degree upon the dispatch and intensity with which they respond to the challenge of the cities.

STATE GENERAL SUPPORT AID AND PROPERTY TAX RELIEF

Current Financial Magnitudes and Trends

State general support aid has as its distinguishing feature the fact that it is unconditional; that is, local governments are permitted to determine their own priorities for spending such funds.

This "no-strings" money may be either a grant appropriated by the State legislature or a tax that is collected by the State but shared—in whole or in part—with the localities. Such State grants totalled $1.6 billion in 1967—nearly double the $844 million provided in 1962. Despite this growth in absolute amounts, State aid for general local government support has been of declining relative importance during the post World War II years—falling from 13.0 percent of all State financial assistance in 1948 to 8.3 percent in 1967.

Not entirely included in the 1967 figures, however, are general support programs in the form of property tax relief—some long-standing ones like the homestead exemptions of Florida, Iowa and Louisiana, and other more recent programs like those enacted by Indiana, Michigan and Minnesota in 1967, and by California in 1968. Through a dedication of State revenues for payment to local governments to reduce their aggregate local levies, and thereby the tax bills of property owners, these States provide perhaps as much as $500 million of "no-strings" support. In general, this type of aid is designed to grow either with the increase in the dedicated receipts or by reason of the increase in property tax burdens.

Aside from Delaware, Georgia, Illinois, Montana, and West Virginia, each of the State governments provided some funds for general support during 1967. In many such States, however, the amounts were quite small (table A-27*); indeed in 12 States providing general purpose grants, the amounts were less than $1.00 per capita. Moreover, the variation among States that provide general support grants ranged from a low of $0.01 per capita in Texas to a high of $68.94 per capita in Wisconsin—with a nationwide average of $8.04.

Most of the State general purpose aid during 1967 was received by municipalities—some 58.7 percent—while counties and townships received 27.1 percent and 10.8 percent respectively.** Of the $1.6 billion in general local government support, however, only 42 percent was distributed to localities on the basis of need, either program or financial. The bulk of such State payments therefore—some 58 percent—was channeled to localities without any clear recognition of the demands for public services placed on them or of local ability to provide such services. Rather, the money was returned on the basis of origin, divided equally, etc.

A considerable portion of the State aid for general local government support and, as was noted in the previous chapter, virtually all of the highway aid, is in the form of shared taxes. To a large extent tax sharing is the offshoot of a traditional phenomenon in State finance—the earmarking of specific revenue sources for specific purposes.

In its purest form tax sharing involves the return of State tax revenue to the local governments in which it is collected. In effect, this amounts to the substitution of State tax collection machinery for mandated collection of the same tax by individual local governments. This type of tax-sharing differs from the local option State-administered piggy-back tax, where in order to obtain the revenue a local government has to take positive action in imposing the tax.

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*Appendix tables appear at the end of each chapter.

**Special districts received the remaining amounts.

Wisconsin affords the classic example of the use of shared taxes that are returned to the locality from which the tax collections originate. In that State a significant portion of its personal and corporation income taxes and most of the Statewide property taxes on public utility property (mainly railroad terminals and light and power plants) are returned to the cities, towns and counties of origin. Income tax shares are paid to the localities in which taxpayers (both corporate and individual) reside; utility property taxes are returned in proportion to the value of property and retail sales of the taxpaying companies. About $175 million of State taxes was returned to Wisconsin cities, towns and counties by this means in 1967–almost one-third of Wisconsin's total State aid.

Outside of Wisconsin there are only a few instances of tax sharing on an origin basis. Until 1967 Maryland returned a portion of its personal income tax to the city of Baltimore and the counties in which the collections originated, but this distribution was replaced by piggy-back local income taxes.

In 1949 New York replaced most of its shared taxes (personal income, corporation income, alcoholic beverage, and utility taxes) with a system of per capita aid for general local government support. The Commission that recommended the change pointed out the drawbacks of shared revenues: their instability as a local revenue source; the fact that shared revenue bears no relationship to local needs; and the complexity of a "hodge-podge" of distribution formulae.[9] The corporation income tax, which provided the largest amount of shared revenue was returned to the localities in which the tax originated. The personal income tax was shared in proportion to local assessed value of real estate, and alcoholic beverage and utility taxes were shared in proportion to population. Per capita grants under the new plan (popularly known as the "Moore Plan", so named after Frank C. Moore, the Commission Chairman) are paid out of appropriated funds rather than from specified tax sources.* Taking an opposite tack, Wyoming repealed its authorization for local piggy-back sales taxes in 1967 and provided for distribution of its additional 1/2 percent tax (the State tax was raised from 2 1/2 to 3 percent) to counties in which the tax is collected. Mississippi took a similar approach in 1968.

Because the sharing of State taxes on an origin basis aggravates local fiscal disparities, there is a definite trend toward a "moderately" equalizing formula for sharing State collected revenue–distribution on the basis of population. When it enacted its 4-cent cigarette tax, Oregon provided for distributing the entire proceeds to its local governments: one-half for property tax relief; one-fourth to counties in proportion to population; and one-fourth to cities in proportion to population. A portion of the new Michigan income tax is distributed on a population basis, as is part of the new Minnesota sales tax.

Distribution of General State Aid– Two Possible Approaches

The distribution of general State aid can take at least two distinct forms; the allocation can be made either by "class of government" or on an "areal" basis–in most cases the county unit.

Under the *class of government* approach the allocation would be made among the eligible classes (cities, counties, and in some cases towns) in accordance with their financing responsibility. This could be accomplished by allocating to each class of local government its pro rata share of the noneducational expenditure from own sources. For example, if the municipalities financed from their own sources 65 percent of all local noneducational general expenditure then all municipalities as a class of government would be entitled to 65 percent of the general support funds.

Once this division has been made, then the distribution to each locality within its class can be governed by equalization considerations. For example, if the 65 percent that has been allocated to the municipalities amounted to $100 million, this $100 million could then be distributed among the municipalities on a moderately equalizing basis–a per capita distribution adjusted for tax effort.

The following table illustrates this approach:

	Population (000)	Tax effort*	Pop. adj. for tax effort (000)	Distribution (percent)
Municipality A	45	1.2	54	60
B	35	.8	28	31
C	20	.4	8	9
Total	100	---	90	100

*Could be expressed as percentage of market value or personal income or a combination of income and market value.

A straight per capita distribution would yield $45 million to Municipality A, since it has 45 percent of the total municipal population. Municipalities B and C would get $35 million and $20 million, respectively, by applying their population shares to the $100 million "municipal pot." Adjusting for tax effort alters these relative shares. When each municipal population is multiplied by its tax effort and then expressed as a percentage of the corresponding amounts for all municipalities the relative shares turn out as 60 percent, 31 percent and

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*It should be noted, however, that New York now turns over the entire proceeds of the stock transfer tax (about $150 million in 1967) to New York City, partly to offset the loss of city general sales tax revenue resulting from a mandated cutback from 4 to 3 percent when New York State enacted a statewide 2 percent sales tax in 1965.

9 percent in Municipalities A, B and C, respectively. Applying these shares to the $100 million "municipal pot" yields $60 million to A, $31 million to B and $9 million to C. Introduction of the tax effort factor then has the effect of "rewarding" Municipality A because of its above average tax effort while reducing the shares of both Municipalities B and C from those yielded by the straight per capita distribution.

The "class of government" approach has the obvious virtue of simplicity but is vulnerable because it ignores intercounty variations in the assignment of financing responsibility and falls short on equalization grounds. To put it more sharply it is possible that a rich county will receive more per capita general support aid than a poor city.

The *areal* approach is somewhat more complicated, but can be designed to do justice to both the equalization and the division of responsibility concepts. For example, the initial State allocation could be made to the county based on each county's pro rata share of the total State population, possibly adjusted for such equalization factors as total tax effort of all the jurisdictions within the county, or poverty concentrations.

After the initial State allocation has been made to the county, then the rule of congruency (division of fiscal responsibility) would take over. For example, if the largest city in the county accounts for 60 percent of the noneducational expenditure from all sources of all eligible local units of government including the county, then that municipality would be entitled to 60 percent of the county allocation, and if the county government's expenditure accounts for 15 percent of the same aggregate eligible expenditures, then that jurisdiction would be entitled to 15 percent of the allocation. At this point a second equalization adjustment could be made by simply relating each local government's noneducational expenditure from its own sources to a measure of ability to pay—such as equalized assessments or personal income.

Recent State Property Tax Relief Actions

Propelled by the growing demand for property tax relief, several States have recently embarked on programs that are essentially general support in character. The aid is extended by the direct transfer of State funds to local governments on a "no expenditure strings" basis as reimbursement for tax relief granted to property owners by the State legislature.

In 1963 Wisconsin tied the adoption of a sales tax to a major property tax relief program. Reimbursement to Wisconsin's local governments under this program amounted to some $100 million in 1967.

Minnesota adopted a new 3 percent sales tax and increased its corporation income tax rate in 1967. To a property tax relief fund, it appropriated the proceeds of one-fourth of the sales tax, the total increase in the corporation income tax, half of gross earnings taxes on railroad and telephone and telegraph companies, already in effect, plus $50 million annually from general and school funds. The property tax relief fund (approximately $200 million) is used to compensate local governments for their revenue loss from a 35 percent reduction (up to $250 per taxpayer) in taxes on homestead property and on agricultural land used for homesteads. Renters are allowed a credit of 3.75 percent of rent paid, up to $45 per year each. The fund will also distribute aid to local governments for their unrestricted use, and to school districts, in part for school budget needs and in part as an offset to school levies.

Indiana dedicated 8 percent of State sales and income tax collections to a property tax relief fund, for the period January 1, 1967 to September 1968. The funds (estimated at $30 million) were allocated to counties essentially on the basis of the ratio of sales and income taxes paid in each county to the State total and were treated as property tax revenue by the receiving local government in determining its property levy.

In 1967, Michigan took both the direct aid route and the property tax relief path. Seventeen percent of the new income tax proceeds is allocated to local governments on a per capita basis. That State also earmarked a portion of the additional revenue for property tax relief. The property owner is permitted to credit a part of his local property tax payment against his State income tax liability. The State income tax credit is graduated inversely to the amount of local property taxes paid, ranging from 20 percent of the first $100 of property taxes to 4 percent on property taxes in excess of $10,000. Renters of homesteads may claim a credit, treating 20 percent of gross rent as taxes.

The California voters adopted a constitutional amendment in November 1968 providing for a homestead exemption of $750 assessed value and requiring the State to reimburse the local governments for their tax loss, estimated together with business property tax relief measures at approximately $200 million.

Tax Substitution Vs. Revenue Supplementation

It must be emphasized that most of the tax relief programs described above differ sharply from the general support programs outlined in the preceding section of the chapter. These local tax relief programs were designed in part to "sugar coat" the enactment of a State sales tax (Wisconsin, Minnesota) and a State income tax (Michigan) and to head off a drastic State-local fiscal upheaval (California). Thus, these "general support" grants to local governments were designed to substitute a "new" State income or sales tax dollar for an old local property tax dollar. This *substitution* effect stands in sharp contrast to the local revenue *supplementation* objective of a general support grant of the New York per capita type.

This distinction, however, often becomes blurred in actual fiscal practice. The State grant to local government for local property tax relief—unless completely offset by local tax reductions—can have some local revenue enhancement effect. A dramatic local rate reduction also reduces local resistance to higher local levies thereby permitting local authorities to raise rates subsequently. Thus, State officials can claim credit for granting property tax relief while local authorities enjoy greater leeway in raising tax rates.

Even the straight per capita grant for local revenue supplementation has obvious property tax relief effects—if not in permitting tax reductions then at least in lessening the pressure for higher property tax rates.

The case for the use of State grants (rather than local nonproperty taxes) to supplement local property tax revenue rests on the greater jurisdictional reach of the State and hence its superior revenue raising capability. Moreover, this approach to local revenue diversification offfers a means to strengthen the fiscal position of all local governments while minimizing their vulnerability to interlocal tax competition. By giving State per capita grants an equalization twist, it is also possible to bring local needs and resources into closer alignment—another sharp contrast to local nonproperty taxes which often increase interlocal fiscal disparities.

There is also a place for a State grant designed to *reduce* the general level of property taxation in those communities that are carrying extraordinary tax burdens in relation to their fiscal capacity. This approach was recommended by the Advisory Commission in its report *Metropolitan Social and Fiscal Disparities* (pp. 124-125).

To prevent this type of aid from degenerating into across-the-board relief, the State grant money could be restricted to those communities with extraordinary effective rates, say above 2.5 percent of market value. As illustrated by the data set forth in table 29, approximately one-third of the selected cities would fall into the "extraordinary" property tax burden classification if this 2.5 percent test is used to determine excessive tax loads.

Rifling State aid into these central cities with high tax rates would help in equalizing or reducing fiscal disparities in these metropolitan areas. Such fiscal assistance would help central cities where high tax rates are reinforcing other powerful social and economic forces in propelling high income families and business firms out of the central city and into the neighboring suburban jurisdictions.

There is still a third dimension to this property tax relief issue—the use of State funds to reimburse low income householders and renters for that portion of their property tax payment deemed to be excessive in relation to their household income. Wisconsin has pioneered in this field and the Advisory Commission has recommended that States relieve any undue local property tax burden on low income families (*Fiscal Balance in the American Federal System*, Vol. 1, pp. 22-23).

TABLE 29—ESTIMATED LOCAL DIRECT TAX BURDEN FOR A FAMILY OF FOUR WITH $10,000 GROSS INCOME RESIDING IN THE LARGEST CITY IN EACH STATE, 1968

City[1]	Real estate tax[2]		Local direct taxes[3]	
	Amount	As a % of market value of home	As a % of Gross income	As a % of Market value of home
1. Newark, N. J.	$1,501	7.90%	15.01%	7.90%
2. Burlington, Vt.	771	4.06	7.71	4.06
3. Boston, Mass.	737	3.88	7.37	3.88
4. Milwaukee, Wisc.	724	3.81	7.24	3.81
5. Philadelphia, Penn.	496	2.61	6.96	3.66
6. Indianapolis, Ind.	694	3.65	6.94	3.65
7. Baltimore, Md.	544	2.86	6.72	3.54
8. Manchester, N. H.	658	3.46	6.58	3.46
9. Hartford, Conn.	647	3.41	6.47	3.41
10. Sioux Falls, S. D.	643	3.38	6.43	3.38
11. Portland, Me.	640	3.37	6.40	3.37
12. Des Moines, Iowa	635	3.34	6.35	3.34
13. New York, N. Y.	476	2.51	6.26	3.29
14. Detroit, Mich.	510	2.68	6.05	3.18
15. Omaha, Nebr.	587	3.09	5.87	3.09
16. Portland, Ore.	562	2.96	5.62	2.96
17. Wilmington, Dela.	560	2.95	5.60	2.95
18. Providence, R. I.	555	2.92	5.55	2.92
19. Wichita, Kansas	541	2.85	5.41	2.85
20. Miami, Florida	538	2.83	5.38	2.83
21. Great Falls, Mont.	520	2.74	5.20	2.74
22. Denver, Colo.	410	2.16	4.97	2.62
23. Fargo, N. D.	494	2.60	4.94	2.60
24. St. Louis, Mo.	404	2.13	4.92	2.59
25. Cleveland, Ohio	409	2.15	4.84	2.55
26. Los Angeles, Calif.	446	2.35	4.80	2.53
27. Phoenix, Arizona	432	2.27	4.80	2.53
28. Louisville, Ky.	302	1.59	4.77	2.51
29. Memphis, Tenn.	424	2.23	4.76	2.51
30. Anchorage, Alaska	459	2.42	4.59	2.42
31. Chicago, Ill.	402	2.12	4.33	2.28
32. Houston, Texas	404	2.13	4.25	2.24
33. Boise, Idaho	424	2.23	4.24	2.23
34. Charlotte, N. C.	386	2.03	4.20	2.21
35. Salt Lake City, Utah	378	1.99	4.02	2.12
36. Oklahoma City, Okla.	342	1.79	3.86	2.03
37. Las Vegas, Nevada	333	1.75	3.74	1.97
38. Minneapolis, Minn.	362	1.91	3.62	1.91
39. Atlanta, Georgia	356	1.87	3.56	1.87
40. Cheyenne, Wyoming	353	1.86	3.53	1.86
41. Jackson, Miss.	323	1.70	3.52	1.85
42. Albuquerque, N. M.	239	1.26	3.32	1.75
43. Seattle, Washington	288	1.52	2.88	1.52
44. Little Rock, Ark.	265	1.39	2.65	1.39
45. Norfolk, Virginia	224	1.18	2.63	1.38
46. Birmingham, Alabama	192	1.01	2.53	1.33
47. Columbia, South Carolina	251	1.32	2.51	1.32
48. New Orleans, Louisiana	106	.56	2.38	1.25
49. Charleston, W. Va.	179	.94	1.79	.94
50. Honolulu, Hawaii	150	.79	1.50	.79
Median	428	2.25	4.82	2.54

[1] Cities are ranked from high to low on the basis of local direct taxes as a percentage of gross income.

[2] Real estate tax estimates are based on a home with a $19,000 market value. Amounts were originally computed for 1966 on the basis of effective property tax rate data for selected major local areas, reported by the U.S. Bureau of the Census in *Taxable Property Values*, Vol. 2 of the 1967 Census of Governments. The 1966 estimate for the largest city in each State was reviewed by a knowledgeable official in each such city and updated to 1968 for this presentation. In a number of instances, local estimates for 1968 deviated significantly from the 1966 Census estimates. The difference was at least one-third in the following cities: Newark, Detroit, Anchorage, Charlotte, and Atlanta.

[3] Includes the following local taxes: real property, personal income, and general sales. In computing personal income taxes, it was assumed that all income was from wages and salaries and earned by one spouse, and that the optional standard deduction was used.

Footnotes

[1] ACIR, *State Legislative and Constitutional Action on Urban Problems in 1967* (M-38), April 1968, p. 18. See also ACIR Bulletin 69-12, p. 13 ff.

[2] 49 USCA 1601 ff.

[3] P.L. 90-464; 82 Stat. 654.

[4] U.S. Department of Transportation, Urban Mass Transportation Administration, *Approved Capital Grant Projects*, Status as of Dec. 31, 1968 (mimeographed).

[5] ACIR, *op. cit.*, p. 25. The other six States are providing technical assistance and some planning money.

[6] Norman Ashford, "The Developing Role of State Government in Transportation," in *Traffic Quarterly*, October 1968, p. 456.

[7] H. Douglas Barclay and David Beers, "New York," *Journal of Housing*, No. 4, April 1968, p. 192.

[8] ACIR, *Metropolitan Social and Economic Disparities: Implications for Intergovernmental Relations in Central Cities and Suburbs* (A-25) January 1965, pp. 123 and 124.

[9] New York State, *Report of the Commission on Municipal Revenues and Reductions of Real Estate Taxes* (Albany: 1946), pp. 18 and 19.

TABLE A-27–GENERAL PURPOSE STATE AID TO LOCAL GOVERNMENTS, 1967
(Dollar amounts, except per capitas, in thousands)

State	Total		Per capita	Percent based on "need"	Percent not based on "need"	Distribution by type of receiving unit					
						Counties		Municipalities		Townships	
	Amount	% of loc. gen. revenue				Amount	% of total	Amount	% of total	Amount	% of total
United States	$1,584,847[1]	2.70	$ 8.04	42.4	57.6	$428,821	27.1	$930,515	58.7	$170,624	10.8
Alabama	7,496	1.14	2.12	31.5	68.5	4,085	54.5	3,411	45.5	—	—
Alaska	2,520	3.45	9.26	—	100.0	—	—	2,520	100.0	—	—
Arizona	40,477	8.70	24.77	42.1	57.9	23,294	57.5	17,183	42.5	—	—
Arkansas	7,755	2.49	3.94	60.9	39.1	4,040	52.1	3,715	47.9	—	—
California	105,085	1.20	5.49	81.9	18.1	96,082	91.4	9,003	8.6	—	—
Colorado	282	.04	.14	—	100.0	282	100.0	—	—	—	—
Connecticut	989	.13	.34	—	100.0	—	—	—	—	989	100.0
Delaware	—	—	—	—	—		—	—	—	—	—
Florida	1,392	.08	.23	—	100.0	1,392	100.0	—	—	—	—
Georgia	—	—	—	—	—	—	—	—	—	—	—
Hawaii	10,507	7.63	14.22	—	100.0	8,440	80.3	2,067	19.7	—	—
Idaho	3,440	2.05	4.92	100.0	—	1,070	31.1	2,370	68.9	—	—
Illinois	—	—	—	—	—	—	—	—	—	—	—
Indiana	19,400	1.39	3.88	69.9	30.1	3,435	17.7	15,965	82.3	—	—
Iowa	37,217[2]	4.80	13.52	7.4	92.6	8,061	21.7	8,763	23.5	—	—
Kansas	10,889[3]	1.59	4.79	49.8	50.2	5,786	53.1	4,620	42.4	311	2.9
Kentucky	2,183[2]	.38	.68	—	100.0	1,453	66.6	243	11.1	—	—
Louisiana	64,306[4]	8.32	17.56	17.4	82.6	14,121	22.0	24,442	38.0	—	—
Maine	464	.25	.48	—	100.0	—		194	41.8	270	58.2
Maryland	71,264	6.18	19.35	22.3	77.7	50,916	71.4	20,348	28.6	—	—
Massachusetts	161,244	9.07	29.74	—	100.0	—	—	90,619	56.2	70,625	43.8
Michigan	95,864[2]	3.53	11.17	73.6	26.4	970	1.0	64,224	67.0	27,555	28.7
Minnesota	22,480[2]	1.81	6.28	53.9	46.1	6,984	31.1	10,055	44.7	1,645	7.3
Mississippi	15,030	3.42	6.40	6.7	93.3	14,492	96.4	538	3.6	—	—
Missouri	4,147[2]	.39	.90	—	100.0	1,232	29.7	1,854	44.7	—	—
Montana											
Nebraska	1,147	.28	.80	100.0	—	287	25.0	860	75.0	—	—
Nevada	4,678	2.66	10.54	92.2	7.8	2,291	49.0	2,387	51.0	—	—
New Hampshire	3,435	2.42	5.01	—	100.0	—	—	1,176	34.2	2,259	65.8
New Jersey	7,790	.37	1.11	—	100.0	3,001	38.5	4,789	61.5	—	—
New Mexico	3,973	1.45	3.96	—	100.0	3,646	91.8	327	8.2	—	—
New York	357,081[3]	4.02	19.46	55.7	44.3	22,115	6.2	296,558	83.1	38,288	10.7
North Carolina	23,378	2.38	4.65	22.6	77.4	12,904	55.2	10,474	44.8	—	—
North Dakota	1,506	.90	2.36	100.0	—	—	—	1,506	100.0	—	—
Ohio	78,291	2.93	7.49	86.5	13.5	25,043	32.0	47,150	60.2	6,098	7.8
Oklahoma	2,484	.45	.99	100.0	—	—	—	2,484	100.0	—	—
Oregon	34,507	5.69	17.26	63.5	36.5	28.511	82.6	5,996	17.4	—	—
Pennsylvania	6,068	.23	.52	—	100.0	140	2.3	4,703	77.5	1,225	20.2
Rhode Island	7,359	3.62	8.18	4.2	95.8	—	—	4,953	67.3	2,406	32.7
South Carolina	20,463	5.27	7.87	83.0	17.0	15,424	75.4	5,039	24.6	—	—
South Dakota	1,896	1.19	2.81	53.0	47.0	908	47.9	918	48.4	70	3.7
Tennessee	21,907	2.75	5.63	82.9	17.1	3,156	14.4	18,751	85.6	—	—
Texas	128	.01	.01	—	100.0	128	100.0	—	—	—	—
Utah	1,000	.39	.98	100.0	—	267	26.7	733	73.3	—	—
Vermont	10	.01	.02	n.a.	n.a.	—	—	—	—	10	100.0
Virginia	13,811	1.48	3.04	90.2	9.8	7,339	53.1	6,472	46.9	—	—
Washington	18,521	2.07	6.00	100.0	—	3,709	20.0	14,812	80.0	—	—
West Virginia											
Wisconsin	288,775	21.25	68.94	19.4	80.6	53,107	18.4	216,795	75.1	18,873	6.5
Wyoming	2,228	1.88	7.07	—	100.0	710	31.9	1,518	68.1	—	—

n.a. Data not available.

[1] Includes $50,284,000 payments to school districts, and $4,603,000 to special districts.

[2] Includes the following payments to school districts (in thousands): Iowa, $20,393; Kentucky, $487; Michigan, $3,115; Minnesota, $3,796; and Missouri, $1,061.

[3] Includes the following payments to special districts (in thousands): Kansas, $172; New York, $120.

[4] Includes $21,432,000 payments to school districts, and $4,311,000 payments to special districts.

Source: Developed by ACIR staff from data in U.S. Bureau of the Census, Census of Governments, 1967, Vol. 6, No. 4, *State Payments to Local Governments*.

★ U.S. GOVERNMENT PRINTING OFFICE : 1969 364-264/294

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[1] Single copies of reports may be obtained without charge from the Advisory Commission on Intergovernmental Relations. Washington, D. C. 20575.

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